

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

ANNUAL COMPLIANCE REVIEW, 2020

Docket No. ACR2020

**UNITED STATES POSTAL SERVICE  
FY 2020 ANNUAL COMPLIANCE REPORT**

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December 29, 2020

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## INTRODUCTION

The United States Postal Service hereby submits its Fiscal Year 2020 Annual Compliance Report (ACR). The ACR is provided pursuant to 39 U.S.C. § 3652, which requires the Postal Service to file with the Postal Regulatory Commission, within 90 days after the end of each fiscal year (FY), a variety of data on costs, revenues, rates, and quality of service, in order to “demonstrate that all products during such year complied with all applicable requirements” of title 39.<sup>1</sup>

Overall, the ACR demonstrates that in FY 2020, the Postal Service’s Market Dominant and competitive products were broadly in compliance with the requirements of chapter 36. While some cost coverage issues persist, these are due mainly to the interplay between an outdated Market Dominant price cap and secular volume declines that were exacerbated in FY 2020 by the pandemic. The Postal Service reduced the number of workshare discount passthroughs that were above 100 percent to only 9. Competitive product volumes and revenues continued to grow, resulting in competitive products covering more than 30 percent of all institutional costs.

On service, it is notable that the first two quarters of FY 2020 saw broad improvements in performance. Unfortunately, given the pandemic, particularly its impact on employee and transportation availability, service performance declined in most categories in the second two quarters and for the year. The Postal Service has implemented a new organizational structure for operational functions that should improve results, and the Board of Governors is engaged in a comprehensive review of operations as part of its formulation of a new strategic business plan.

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<sup>1</sup> Unless specified otherwise, section numbers refer to statutory provisions in title 39, United States Code.

## **I. OVERVIEW OF REPORT**

### **A. Contents**

This report consists of both the present document and underlying data appended as 76 separate folders. This document contains only the most salient information from those folders in order to demonstrate compliance with title 39 and the Commission's annual reporting rules.<sup>2</sup> Consistent with the structure that has been used in the past, Section I provides an overview of this report, its contents, and its methodologies. Section II analyzes Market Dominant pricing compliance. Section III addresses service performance, customer satisfaction, and consumer access. Section IV discusses competitive products compliance. Section V covers market tests and nonpostal services. Finally, Section VI describes the nonpublic annex.

More detailed information can be found in the appended folders. A list of the appended folders appears at Attachment One.<sup>3</sup> Each folder includes a preface document explaining its purpose, background, structure, and relationship with other materials in the ACR. Broadly speaking, there are three types of data in the appended folders: (1) product costing material; (2) intra-product cost analyses; and (3) billing determinants. The focus of the product costing material, in terms of ultimate output, is the Cost and Revenue Analysis report (CRA), at USPS-FY20-1, and the International Cost and Revenue Analysis report (ICRA), at USPS-FY20-NP2. The intra-product cost analyses underpin Section II's examination of workshare discounts. The billing

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<sup>2</sup> See generally 39 C.F.R. §§ 3050, 3055.

<sup>3</sup> The folders are sequentially numbered and labeled as USPS-FY20-1, USPS-FY20-2, etc. Folders in the nonpublic annex, discussed in Section VI below, are labeled as USPS-FY20-NP1, USPS-FY20-NP2, etc. (with "NP" signifying "nonpublic").

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

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

Section 3652(g) requires the Postal Service to submit, together with this report, a copy of its most recent Comprehensive Statement. A copy of the Postal Service's FY 2020 Comprehensive Statement appears within the FY 2020 Annual Report in USPS-FY20-17.<sup>4</sup> Similarly, a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2011(i), appears as part of USPS-FY20-39, along with the other Competitive Products Fund materials required by 39 C.F.R. §§ 3060.20 - 3060.23.

## **B. Roadmap**

A separate roadmap document is included at USPS-FY20-9. The roadmap is a technical document that consolidates brief descriptions of each of the appended folders and of the flow of inputs and outputs among them. It also discusses any changes among the methodologies used to prepare this report and the methodologies applied by

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<sup>4</sup> The FY 2020 Annual Report presented in USPS-FY20-17 also includes, at pages 31-57, the Postal Service's FY 2021 Annual Performance Plan and FY 2020 Annual Performance Report. Corresponding nonpublic materials associated with the FY 2021 Annual Performance Plan and FY 2020 Annual Performance Report are provided as a section within USPS-FY20-NP30. Also included in USPS-FY20-17 are certain background materials regarding Total Factor Productivity (TFP) and OPM determinations that relate to portions of the Annual Report.

the Commission in the FY 2019 Annual Compliance Determination (ACD). In addition, it includes the listing of special studies and the discussion of obsolescence required by 39 C.F.R. § 3050.12. Also included in the roadmap document is a separate section that lists new directives from the Commission requiring additional materials and identifies specifically where in the ACR those additional materials are found. That portion of the roadmap document presents as well comparable locational information for certain continuing directives in response to which updated materials are still being provided.

### **C. Methodology**

In general, the Postal Service has prepared this report using the methodologies most recently approved or applied by the Commission. Any methodology changes are identified in USPS-FY20-9, and, where appropriate, in the preface accompanying each of the appended folders.

In the FY 2018 ACR, as a consequence of the CRA's continued evolution in response to Commission Order No. 3506, material differences were noted on pages 4-6 between that document and previous ACRs in reporting aggregate attributable costs and institutional costs.<sup>5</sup> In contrast, those matters are handled in this year's report without change from FY 2018 or last year. The same procedures used in the FY 2018 and FY 2019 reports are applied again in FY 2020 to develop the attributable costs of individual products, the attributable costs of Market Dominant classes and total competitive products, and total attributable and total institutional costs. Correspondingly, all three competitive product tests of section 3633(a) are conducted without alteration—

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<sup>5</sup> See Order No. 3506, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), Docket No. RM2016-2 (Sept. 9, 2016; revised Oct. 19, 2016); see *also* Annual Compliance Determination Report, Fiscal Year 2017 (Mar. 29, 2018), at 8-9 [hereinafter "FY 2017 ACD"].

the (a)(1) cross-subsidy test, the (a)(2) attributable cost test, and the (a)(3) appropriate share test. Through these procedures, the equivalence between attributable costs and incremental costs established in Order No. 3506 is maintained.<sup>6</sup>

Following proceedings in Docket No. RM2018-1, the Commission established a new rule, 39 C.F.R. § 3050.50, to require consolidated annual submission of comprehensive information regarding the costs and service performance of flat-shaped mail.<sup>7</sup> Previously, the Postal Service had provided individual parts of this information piecemeal in response to various Commission requests. For FY 2020, comparable to last year, the public portion of the identified flats-related material is provided in USPS-FY20-45, and the facility-specific, nonpublic portion in USPS-FY20-NP31.

In accordance with 39 C.F.R. § 3050.13, USPS-FY20-9 includes a table listing, in chronological order, the Postal Service's proposals to change analytical principles that either were pending when the FY 2019 ACR was submitted or have been filed since then.

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<sup>6</sup> For Market Dominant products, those incremental cost estimates are developed in a public folder, USPS-FY20-43 (Market Dominant Incremental Costs). For competitive products, the incremental costs are developed either in nonpublic folder USPS-FY20-NP10 (Competitive Products Incremental Costs) or, for domestic competitive negotiated service agreement (NSA) products, in nonpublic folder USPS-FY20-NP27. There are, however, instances (previously acknowledged by the Commission) in which computational complications preclude separate estimation of incremental costs for certain products, most notably international mail products. *See* Order No. 3641, Order Adopting Final Rules on Changes Concerning Attributable Costing, Docket No. RM2016-3 (Dec. 1, 2016), at 6. For individual international products, the reported attributable costs continue to be calculated as the volume variable plus product specific costs.

<sup>7</sup> Order No. 5086, Docket No. RM2018-1 (May 9, 2019).

## II. MARKET DOMINANT PRODUCTS

Below, the Postal Service discusses, for each Market Dominant mail class, FY 2020 costs, revenues, and volumes by product, as well as intra-product workshare discounts and passthroughs. Comprehensive cost, revenue, and volume data are contained in the CRA at USPS-FY20-1 and in the ICRA at USPS-FY20-NP2. Full data regarding workshare discounts and passthroughs are contained in USPS-FY20-3.

The number of workshare discount passthroughs that were above 100 percent of avoided costs in FY 2020 decreased to 9, as compared to 12 in FY 2019 and 23 in FY 2018, out of a total of 108 passthroughs. Four of the 9 will fall below 100 percent when Docket No. R2021-1 prices take effect. There were no passthroughs exceeding 100 percent in Package Services and only one in First-Class Mail.

### A. **First-Class Mail**

#### 1. **Cost, Revenues, and Volumes**

Costs, revenues, and volumes for First-Class Mail products appear in Table 1.

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

Product	Volume (millions)	Revenue (\$ millions)	Attributable Cost (\$ millions) <sup>[1]</sup>	Contribution (\$ millions)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Single-Piece Letters/Cards	15,182.1	8,135.0	5,022.1	3,112.9	0.54	0.33	0.21	161.98
Presorted Letters/Cards	36,246.5	13,999.1	4,996.1	9,003.1	0.39	0.14	0.25	280.20
Flats	1,204.7	1,544.7	1,544.6	0.1	1.28	1.28	0.00	100.01
First-Class Mail Fees		105.2						
Total First-Class Domestic Mail (incl. fees)	52,633.2	23,784.0	11,823.2	11,960.8	0.45	0.22	0.23	201.16
Outbound Single-Piece First-Class Mail Int'l	96.8	144.5	111.8	32.7	1.49	1.15	0.34	129.28
Inbound Letter Post	219.2	223.2	254.5	(31.3)	1.02	1.16	(0.14)	87.68
Total First-Class Mail	52,949.2	24,151.7	12,189.5	11,962.2	0.46	0.23	0.23	198.14

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

Apart from Inbound Letter Post, all First-Class Mail products covered their attributable costs in FY 2020, with most of them contributing significantly to institutional costs. In FY 2020, First-Class Mail cost coverage was 198 percent, and its total contribution was \$12.0 billion.

First-Class Mail volume declined by 4.8 percent in FY 2020, which follows a volume decline in FY 2019 of 3.2 percent. Presort Cards volume increased approximately 8.1 percent, while the volume for other products and sub-products declined. Among the domestic rate categories, Metered Mail had the most significant decline of approximately 12 percent, which is likely attributable to the economic impact resulting from the pandemic, particularly its effect on small businesses. First-Class Mail 5-Digit Automation Letters, which comprised approximately 47 percent of First-Class Mail domestic volume, showed positive growth in FY 2020, as it did in FY 2019. Because Automation Letters overall have declined in both years, the growth in the 5-Digit category reflected volumes shifting from less presorted rates such as Mixed AADC and AADC to 5-Digit. See Table 2.

**Table 2: Changes in Automation and 5-Digit Automation Letters**

	FY 2018	FY 2019	FY 2020
Automation Letters	35,185,624	34,629,799	33,605,678
5-Digit Auto Letters	24,146,795	24,430,792	24,504,109
% of Auto 5-D Auto Letters	68.6	70.5	72.9

Inbound Letter Post did not cover its attributable costs in FY 2020. As has been noted in past ACRs, financial performance for Inbound Letter Post stems from its unique pricing regime. For all of FY 2020, the Postal Service did not determine the prices for Inbound Letter Post (MCS section 1130). Rather, the applicable prices were set

according to a Universal Postal Union (UPU) terminal dues formula established by the Universal Postal Convention.

For the past several years, the Postal Service has collaborated with other Federal entities, including the Department of State, which has lead responsibility for representation of the United States in the UPU, to improve cost coverage on Inbound Letter Post mail. These efforts were successful and culminated in the adoption of self-declared rates for E-format items (generally packets and bulky letters up to 4.4 pounds) beginning in July 2020, with respect to exchanges of E-format items with the United States, as embodied in the Second Additional Protocol to the Universal Postal Convention.<sup>8</sup>

In combination with this groundbreaking change, the Postal Service transferred inbound E-format items to the competitive product list in January 2020, and thus E-format items are no longer part of the Market Dominant Inbound Letter Post product (MCS section 1130). Specifically, as of January 1, 2020, Inbound E-format Letter Post was transferred to MCS section 2340 Inbound Letter Post Small Packets and Bulky Letters on the competitive product list.<sup>9</sup> As of July 1, 2020, the Postal Service began applying self-declared rates for major E-format flows, and, therefore, the contribution for the Inbound Letter Post Small Packets and Bulky Letters product is now part of the overall contribution calculation from competitive services.

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<sup>8</sup> See Second Additional Protocol to the Universal Postal Convention, done at Geneva Sept. 26, 2019, Article II (Art. 28bis added).

<sup>9</sup> See Order No. 4980, Order Conditionally Approving Transfer, Docket No. MC2019-17 (Jan. 9, 2019). See also Order No. 5152, Order Approving Range of Rates for Inbound Letter Post Small Packets and Bulky Letters and Associated International Registered Mail Service, Docket No. CP2019-155 (July 12, 2019) and Order No. 5372, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, Docket Nos. MC2019-17 and CP2019-155 (Dec. 19, 2019).

Of course, the Postal Service is mindful of the fact that additional work still needs to be done to raise the cost coverage of Inbound Letter Post letters and flats. The Postal Service expects further progress in this regard later in 2021, when the next UPU Congress is scheduled to convene to consider increases in the rates for letter and flat formats beginning in 2022. The Postal Service plans to actively pursue efforts to improve cost coverage on Inbound Letter Post letters and flats.

## **2. Workshare Discounts and Passthroughs**

Only 1 of the 12 First-Class Mail workshare discounts exceeded 100 percent of avoided costs in FY 2020: Automation Mixed Automated Area Distribution Center (AADC) Letters. The AADC Automation Letters passthrough was 117.3 percent in FY 2020, compared to 107.5 percent in FY 2019. This increase was due to a significant decrease in the cost avoidance, which fell from 6.7 cents to 5.2 cents, a decline of 22.4 percent. In Docket No. R2021-1, the Postal Service set this passthrough to 89.6 percent. Unfortunately, due to the change in cost avoidance, this passthrough will increase to 115.4 percent when Docket No. R2021-1 prices go into effect. In the next Market Dominant price case, the Postal Service intends to recommend to the Governors that they realign the discount toward its cost avoidance in compliance with new 39 C.F.R. §§ 3030.280 - 3030.284 or seek an appropriate waiver under new § 3030.286.

## **3. First-Class Mail Promotions**

During FY 2020, the Postal Service offered four First-Class Mail promotions, discussed below.

### **a. Personalized Color Transpromo Promotion**

The Personalized Color Transpromo Promotion (October 1 to December 2019, July 1 to December 31, 2020) provides participating mailers an upfront 2 percent postage discount on bills and statements mailed as First-Class Mail presort or automation letters. To qualify, mail pieces are required to feature marketing messages in dynamic/variable color print. Mail pieces from mailers who participated in the promotion in previous years must also include personalized messaging. As of September 30, 2020, the Postal Service had issued \$7.0 million in discounts for 1.1 billion First-Class Mail pieces.

### **b. Emerging and Advanced Technology Promotion**

The Emerging and Advanced Technology Promotion (March 1 to August 31, 2020) provided participating mailers an upfront 2 percent postage discount on First-Class Mail presort or automation letters, cards, and flats, as well as regular and nonprofit USPS Marketing Mail letters and flats. To qualify, mail pieces were required to feature advanced technology such as Near Field Communication, enhanced Augmented Reality, Virtual Reality, Mixed Reality, Video in Print, Integration with Voice Assistants, or Digital to Direct Mail. Over the course of the program, the Postal Service issued \$1.9 million in discounts for approximately 238 million First-Class Mail pieces.

### **c. Earned Value Reply Mail Promotion**

The Earned Value Reply Mail Promotion (April 1 to June 30, 2020) provided participating mailers a postage credit for each First-Class Mail Business Reply Mail (BRM), Courtesy Reply Mail (CRM), and Share Mail piece returned to the mailer during the promotion period. At the end of the promotion period, the total credit amount earned

was applied to the mailer’s permit account for application to future mailings of First-Class Mail presort and automation letters, cards, and flats, and USPS Marketing Mail letters and flats. Over the course of the program, the Postal Service issued approximately \$5.1 million in credits for approximately 390 million BRM, CRM, and Share Mail pieces. To date, approximately \$3.0 million worth of credits have been used on First-Class Mail.

#### **d. Informed Delivery Promotion**

The Informed Delivery Promotion (October 1 to November 30, 2019, and September 1 to November 30, 2020), a new USPS promotion in FY 2019, provided participating mailers a 2 percent postage discount on mailings that incorporated Informed Delivery campaigns. As of September 30, 2020, the Postal Service issued \$1.7 million in discounts for approximately 225 million First-Class Mail pieces.

### **B. USPS Marketing Mail**

#### **1. Cost, Revenues, and Volumes**

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

**Table 3: USPS Marketing Mail Volume, Revenue, and Cost by Product**

Product	Volume (millions)	Revenue (\$ millions)	Attributable Cost (\$ millions) <sup>[1]</sup>	Contribution (\$ millions)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
HD/SAT Letters	6,533	1,100	585	515	0.17	0.09	0.08	188.13
HD/Sat Flats & Parcels	10,427	1,862	1,437	425	0.18	0.14	0.04	129.57
Carrier Route	5,048	1,338	1,394	(56)	0.27	0.28	(0.01)	95.99
Letters	38,408	8,139	4,759	3,380	0.21	0.12	0.09	171.01
Flats	3,199	1,342	2,124	(781)	0.42	0.66	(0.24)	63.20
Parcels	37	50	65	(15)	1.35	1.77	(0.42)	76.46
Every Door Direct Mail Retail	530	99	38	60	0.19	0.07	0.11	257.12
Marketing Mail Fees		29						
Total Marketing Mail (incl. fees)	64,180	13,959	10,783	3,176	0.22	0.17	0.05	129.45

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products’ attributable costs will not equal the total attributable cost of the class.

As shown above, most USPS Marketing Mail products covered their attributable costs in FY 2020, with the exception of Carrier Route, Parcels, and Flats. As a class, USPS Marketing Mail covered its attributable costs and contributed to institutional costs.

Under section 3626(a)(6), when the Postal Service adjusts USPS Marketing Mail prices, the estimated average revenue per piece for USPS Marketing Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for USPS Marketing Mail sent by commercial customers. For FY 2020, the ratio was 58.97 percent.<sup>10</sup>

#### **a. USPS Marketing Mail Carrier Route**

The USPS Marketing Mail Carrier Route product covered 96.0 percent of its attributable costs in FY 2020, down from 99.7 percent in FY 2019. A lengthier history of Carrier Route cost coverage is provided in the table below.

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<sup>10</sup> In conformance with section 3626(a)(6), the prices approved in the three most recent Market Dominant price cases were designed to result in a ratio of 60.0 percent. Order No. 5757, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Package Services and Special Services Products and Related Mail Classification Changes, Docket No. R2021-1 (Nov. 18, 2020), at 26; Order No. 5321, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. R2020-1 (Nov. 22, 2019), at 24; Order No. 4875, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. R2019-1 (Nov. 13, 2018), at 39. However, as the Commission has repeatedly acknowledged, changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law. *See, e.g.*, FY 2018 ACD, at 39; FY 2017 ACD, at 43.

**Table 4: Carrier Route Cost Coverage**

Carrier Route	Per piece		
	Revenue (\$)	Attributable Cost (\$)	Cost Coverage (%)
ACR2009	0.231	0.160	144.0
ACR2010	0.236	0.165	142.5
ACR2011	0.238	0.177	134.8
ACR2012	0.246	0.189	130.4
ACR2013	0.250	0.187	133.4
ACR2014	0.263	0.188	140.2
ACR2015	0.270	0.206	131.1
ACR2016	0.270	0.196	137.5
ACR2017	0.261	0.210	124.1
ACR2018	0.263	0.242	108.5
ACR2019	0.262	0.263	99.7
ACR2020	0.265	0.276	96.0

While revenue per piece increased slightly to \$0.265 in FY 2020 from \$0.262 in FY 2019, the cost per piece rose from \$0.263 to \$0.276, an increase of 4.9 percent. Between FY 2019 and FY 2020, volume dropped 20.6 percent, a decline of 1.3 billion pieces, and there are three major reasons for this reduction. First and foremost, the COVID-19 pandemic caused some significant declines in Marketing Mail volumes in FY 2020. The two other reasons were present in previous years: a change in preferences continued to favor online advertising over print, and co-mailing continued to move Carrier Route volumes to High Density.

In Docket No. R2020-1, the Postal Service gave Carrier Route a below-average increase of 1.129 percent, which the Postal Service deemed appropriate due to the product's price elasticity and the value added by catalogs in the mailbox. This 1.129 percent increase led to a 1.0 percent increase in revenue per piece, from 26.2 cents to 26.5 cents.

As noted above, the unit attributable cost for Carrier Route increased 1.3 cents in FY 2020, which was driven by higher delivery unit costs. The increase was primarily due

to increases in city carrier in-office unit costs and rural carrier unit costs rising 1.1 cents and 0.8 cents, respectively. City in-office unit costs were higher this year due in part to a costing methodology change regarding sampling of city carriers in the office. In addition, declining volume caused a loss of economies of density, as there were fewer pieces to distribute to a steadily increasing number of delivery points.

#### **b. USPS Marketing Mail Parcels**

USPS Marketing Mail Parcels covered 76.5 percent of its attributable costs in FY 2020, up substantially from 56.9 percent in FY 2019 as a result of multiple factors. First, Parcels volume remained the same from FY 2019 to FY 2020 at 37 million pieces. At the same time, revenue per piece increased from \$1.310 to \$1.354, a 3.3 percent increase close to the Docket No. R2020-1 price increase of 3.9 percent. The largest contributing factor, however, was a significant reduction in the unit cost per piece, from \$2.304 in FY 2019 to \$1.771 in FY 2020, a decline of 23.1 percent.

The Postal Service remains committed to improving Parcels cost coverage through above-average price increases and continued efforts to improve efficiency and notes that, in conformance with the Commission's requirement in the FY 2019 ACD that it increase Parcels prices by at least 2 percentage points above the class average, Parcels prices will increase by 16.791 percent upon implementation of the Docket No. R2021-1 price change.<sup>11</sup> As Table 5 illustrates, the Postal Service has implemented above average increases in the last several rate cycles.

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<sup>11</sup> FY 2019 ACD, at 2.

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

Docket No.	(A) Parcels Price Increase (%)	(B) Overall USPS MM Price Increase (%)	(A) as Percent of (B)
R2013-10	1.820	1.607	113.2
R2015-4	9.295	1.926	482.6
R2017-1	1.583	0.900	175.9
R2018-1	2.768	1.936	143.0
R2019-1	2.691	2.482	108.4
R2020-1	3.913	1.860	210.4
R2021-1	16.791	1.509	1112.7

Accordingly, the Postal Service is cautiously optimistic that Marketing Mail Parcels will continue to move toward covering its attributable costs.

The Postal Service’s responses to the Commission’s Parcels directives are provided in Section II.B.3.

**c. USPS Marketing Mail Flats**

USPS Marketing Mail Flats covered 63.2 percent of its attributable costs in FY 2020, down 4.5 percentage points from FY 2019. While per-piece revenue rose from 40.9 cents in FY 2019 to 42.0 cents in FY 2020, an increase of 2.7 percent, this was offset by a 6 cent, or a 9.9 percent, increase in per-piece cost. Flats volume decreased by 619 million pieces or 16.2 percent, with the volume distribution among presort and entry levels remaining similar to last year. There were slightly smaller proportions for 5-Digit presort and DSCF entry in FY 2020 compared to FY 2019.

The sharp volume decline in Flats, and in flat-shaped mail pieces, is the primary reason that mail processing costs continued to rise at a faster rate than wages. From FY 2009 to FY 2020, Flats volume decreased from 7.8 billion pieces to 3.2 billion pieces; AFSM 100 annual Total Pieces Fed (TPF) decreased from 24.4 billion to 10.1 billion; and aggregate AFSM 100 productivity has fallen from 3,114 pieces per work

hour (excluding flat preparation operations) to 2,096 pieces per hour. Because setup and breakdown activities are largely invariant to processed volume, the continued volume declines necessarily lead to higher unit mail processing costs. AFSM 100 productivity (TPF/workhour), including workhours from flat preparation operations, has declined 7 percent in the last year alone, and FSS productivity has declined 9 percent during the same period. Co-mailing, which shifts pieces toward High Density, is a secondary influence contributing to the volume decline in Flats. While USPS Marketing Mail experienced a class-wide decline in flat-shaped piece volume in FY 2020 compared to FY 2019, the High Density Flats volume reduction was relatively small compared to the reduction in Flats and Carrier Route. See Table 6. The continued increase in co-mailing and shifting of volumes to finer presort levels, depicted in Table 6, leaves fewer pieces in Flats and Carrier Route, thereby putting upward pressure on Flats and Carrier Route per-piece mail processing costs.

**Table 6: Volume (Millions) of Flat-Shaped Products and Categories**

Product	FY 2018	FY 2019	FY 2020	% Change FY 2019 vs. FY 2018	% Change FY 2020 vs. FY 2019
Flats	4,079	3,818	3,199	(6.4)	(16.2)
CR Flats	6,998	6,323	5,017	(9.6)	(20.7)
HD Flats	1,783	1,956	1,687	9.8	(13.8)
HD Plus Flats	654	668	597	2.1	(10.6)
Saturation Flats	9,154	8,982	8,143	(1.9)	(9.3)
Total	22,667	21,747	18,643	(4.1)	(14.3)

The Postal Service's responses to the Commission's Flats directives are provided in Section II.B.4.

## **2. Workshare Discounts and Passthroughs**

In FY 2020, only 6 USPS Marketing Mail passthroughs exceeded 100 percent, down from 10 in FY 2019 and 14 in FY 2018, 5 of them in Parcels and one in Carrier Route. The 6 passthroughs that exceeded 100 percent in FY 2020 were the following.

### **a. Pre-barcoding**

Three passthroughs for pre-barcoding Mixed Network Distribution Center (NDC) Machinable Barcoded Parcels, pre-barcoding Mixed NDC Irregular Barcoded Parcels, and pre-barcoding NDC Marketing Barcoded Parcels were 114.0 percent in FY 2020, compared to 131.7 percent in FY 2019. Once Docket No. R2021-1 prices take effect, these passthroughs will drop to 95.3 percent. Therefore, the Postal Service believes no further action is necessary to bring these three pre-barcoding passthroughs into compliance with the statute.

### **b. NDC Machinable Parcels**

The NDC Machinable Parcels passthrough was 113.8 percent in FY 2020, compared to 64.0 percent in FY 2019. This increase is due to a significant decrease in the cost avoidance, which fell from \$0.619 to \$0.362, a decline of 41.5 percent. In Docket No. R2021-1, the Postal Service set this passthrough to 68.7 percent. Unfortunately, due to the change in cost avoidance, this passthrough will increase to 117.4 percent when Docket No. R2021-1 prices go into effect. The Postal Service intends to recommend to the Governors that in the next Market Dominant rate case, they realign the discount toward its cost avoidance in compliance with new 39 C.F.R. §§ 3030.280 - 3030.284 or seek an appropriate waiver under new § 3030.286.

### **c. NDC Marketing Parcels**

The NDC Marketing Parcels passthrough was 120.3 percent in FY 2020, compared to 68.4 percent in FY 2019. This increase is due to a significant decrease in the cost avoidance, which fell from \$0.488 to \$0.301, a decline of 38.3 percent. In Docket No. R2021-1, the Postal Service set this passthrough to 97.1 percent. Unfortunately, due to the change in cost avoidance, this passthrough will increase to 157.5 percent when Docket No. R2021-1 prices go into effect. The Postal Service intends to recommend to the Governors that in the next Market Dominant rate case, they realign the discount toward its cost avoidance in compliance with new 39 C.F.R. §§ 3030.280 - 3030.284 or seek an appropriate waiver under new § 3030.286.

### **d. Carrier Route DSCF Letters**

The Carrier Route DSCF Letters passthrough was 107.4 percent in FY 2020, compared to 133.3 percent in FY 2019. Once Docket No. R2021-1 prices take effect, this passthrough will drop to 88.9 percent. Therefore, the Postal Service believes no further action is necessary to bring this passthrough into compliance with the statute.

## **3. Commission Parcels Directives**

The Commission's 2019 ACD contains two directives about Parcels cost coverage.

### **a. SCF Presort Unit Costs**

Last year, in response to an information request, the Postal Service explained how the input data in the Parcels mail processing cost model (USPS-FY19-12) changed

between FY 2018 and FY 2019.<sup>12</sup> These changes resulted in a cost avoidance estimate for DNDC SCF presort marketing parcels that decreased from \$0.396 in FY 2018 to \$0.226 in FY 2019. The Commission subsequently directed the Postal Service to investigate further why the SCF presort marketing unit costs had increased in FY 2019, despite the fact that a change to the USPS-FY19-26 mail processing unit cost estimate is just one of several factors that affected the cost avoidance estimate.<sup>13</sup>

The mail processing unit cost estimate for DNDC SCF marketing parcels was not the only mail processing unit cost estimate to increase in FY 2019. The mail processing unit cost estimates for all the Parcels price categories increased between FY 2018 and FY 2019 because the USPS-FY19-26 mail processing unit cost estimate for Parcels increased by 10.3 percent. There were no specific operational changes implemented during that fiscal year that could explain this increase in costs. The mail characteristics changes in FY 2019 also did not fully explain the increase in costs. For example, the percentage of the mail entered at the DDU increased, as did the percentage of mail that was not presorted. The former change would result in a decrease in costs, all other things being equal, while the latter would result in an increase in costs.

In FY 2020, the mail processing unit cost estimates for all the Parcels price categories have decreased because the USPS-FY20-26 mail processing unit cost estimate decreased by 24.3 percent. In addition, the cost avoidance between a DNDC NDC presort marketing parcel and a DNDC SCF presort marketing parcel has increased to \$0.338 from last year's figure of \$0.226.

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<sup>12</sup> Response of the United States Postal Service to Question 2 of Chairman's Information Request No. 12 (February 14, 2020).

<sup>13</sup> Annual Compliance Determination Report Fiscal Year 2019 (March 25, 2020) at 21.

The smallest volume product for which a letter, flat, or parcel mail processing cost model is filed in the ACR is Parcels. The current volume of Parcels is roughly half of what it was in FY 2013, which was the first full fiscal year in which all the former Commercial machinable and irregular price categories had been reclassified as Parcel Select Lightweight price categories. To an extent, the numbers within any of the cost models will fluctuate from year to year given the many inputs that are incorporated into them. The cost model inputs that are developed using postal sampling systems, however, are more likely to fluctuate from year to year for the smaller volume products.

**b. Opportunities to Reduce Costs**

The Commission also directed the Postal Service to explore and implement opportunities to further reduce Parcels costs.<sup>14</sup> There are some management directives currently in place at the NDCs that should help: (1) the NDCs were advised to focus on “traditional” NDC products (*e.g.*, Marketing Mail) and to ensure that the processing windows for those products were not compromised with the processing windows for “non-traditional” NDC products (*e.g.*, Priority Mail); (2) the NDCs were expected to complete service grid analyses with weekly action plans; and (3) the NDCs were asked to develop customized reports and analyses that were submitted to higher level management for review. Given that Parcels are a relatively small volume product, they are typically mixed with other parcel products when they are processed through postal facilities. These directives should therefore affect the costs for all NDC parcel products.

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<sup>14</sup> Annual Compliance Determination Report Fiscal Year 2019 (March 25, 2020) at 46.

#### **4. Commission Flats Directives**

In the FY 2010 ACD, the Commission articulated a number of directives for Flats cost coverage. The Commission generally directed the Postal Service “to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions until such time that the revenues for this product exceed attributable costs.”<sup>15</sup> More specifically, the Commission directed the Postal Service to report in future ACRs on its progress in increasing Flats prices, implementing operational changes aimed at lowering flats costs, effectuating costing methodology improvements, and phasing out the subsidy of Flats. The Postal Services addresses each of these directives in turn.

##### **a. Schedule of Above-Average Price Increases**

The Commission’s FY 2010 ACD directed the Postal Service to present a schedule of above-average CPI price increases for Flats in each subsequent ACR and price case,<sup>16</sup> and the Postal Service has done so.

However, in the FY 2018 and FY 2019 Annual Compliance Determinations, the Commission directed the Postal Service to increase the price of Flats by at least 2 percentage points above the class average in each of the next Market Dominant price cases.

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<sup>15</sup> Annual Compliance Determination Report, Fiscal Year 2010, Docket No. ACR2010 (Mar. 29, 2011), at 106 [hereinafter “FY 2010 ACD”]. After resolution of the Postal Service’s appeal of certain remedial actions regarding Standard Mail Flats in the FY 2010 ACD, the Commission directed the Postal Service to “respond to the specific remedy adopted by the 2010 ACD by presenting a schedule of future price adjustments for Standard Mail Flats.” Order No. 1472, Notice and Order Confirming Termination of Stay, Docket No. ACR2010-R (Sept. 21, 2012), at 3.

<sup>16</sup> FY 2010 ACD, at 107.

On November 30, 2020, in Docket No. RM2017-3, the Commission adopted 39 C.F.R. § 3030.221, which requires the Postal Service to increase rates for non-compensatory products within compensatory classes of mail, such as Flats, presently, “by a minimum of 2 percentage points above the percentage increase for that class.” This regulation will govern future Market Dominant price cases.

The FY 2018 and FY 2019 ACDs superseded the Postal Service’s planned increases in the price of Flats for FY 2020 and FY 2021, and, accordingly, the price of Flats increased by 3.893 percent when R2020-1 prices were implemented in January 2020 and will increase 3.553 percent in January 2021 under the price increases approved in Docket No. R2021-1. Table 7 gives a history of the above-average price changes for Flats.

**Table 7: Flats Price Changes Compared to Overall USPS Marketing Mail Authority**

Docket No.	(A) Flats Price Increase (%)	(B) Overall USPS MM Pricing Authority (%)	(A) as Percent of (B)
R2013-10	1.810	1.696	106.7
R2015-4	2.549	1.966	129.7
R2017-1	2.522	0.927	272.1
R2018-1	2.167	2.008	107.9
R2019-1	2.621	2.491	105.2
R2020-1	3.893	1.909	203.9
R2021-1	3.553	1.519	233.9

**b. Information Requests Related to Flats Costs**

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

- All operational changes designed to reduce flats costs in the previous fiscal year and an estimation of the financial effects of such changes;
- All costing methodology improvements made in the previous fiscal year and the estimated financial effects of such changes; and

- A statement summarizing the historical and current fiscal year subsidy of the Flats product; and the estimated timeline for phasing out this subsidy.<sup>17</sup>

### **i. Operational Changes**

In Docket No. RM2018-1, the Commission codified and expanded the first directive in 39 C.F.R. § 3050.50(f), which applies to all flat-shaped mail.<sup>18</sup> The Postal Service is providing the information required by § 3050.50(f) in USPS-FY20-45. The next section responds to the second and third requests.

### **ii. Costing Methodology Changes and Subsidy of the Flats Product**

USPS Marketing Mail Flats unit costs reported in the CRA increased from 60.4 cents in FY 2019 to 66.4 cents in FY 2020. Four costing methodology changes had a material effect on the reported costs of Marketing Mail Flats over this period. Estimates of the financial effects of these improvements can be gleaned from the materials submitted with each proposal, and each of them is discussed in greater detail in USPS-FY20-45 (in the materials for paragraph G. Data Enhancement).

Docket No. RM2019-6 (Proposal One) revised the cost attribution procedures for Special Purpose Routes (SPRs) used in the CRA. If this Proposal One methodology had been applied in the FY 2019 CRA, it is estimated that the unit costs reported for Marketing Mail Flats would have been 0.2 cents lower. Docket No. RM2020-1 (Proposal Nine) updated inputs into the analysis used for the allocation of facility-related costs to

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<sup>17</sup> FY 2010 ACD, at 107.

<sup>18</sup> Order No. 5004, at 10 (“[T]he Commission proposes specific expansions to the FY 2010 ACD directive for USPS Marketing Mail Flats. Specifically, the Commission proposes to expand a portion of the directive to all flat-shaped mail, and require the Postal Service to list all operational initiatives that impact all flat-shaped mail, and provide additional analysis that links operational initiatives or operational changes to specific metrics described above for all flat-shaped mail”).

products. The potential effect of this change on reported FY 2019 unit costs for Marketing Mail Flats would have been an estimated increase of 0.1 cents. Docket RM2020-7 (Proposal Two) proposed a methodology for updating the city carrier regular delivery time variabilities annually to better reflect changes in relative volumes. Application of this methodology in the FY 2019 CRA would have reduced the Flats unit costs by 0.5 cents. Docket No. RM2020-10 (Proposal Three) advanced a change in the In-Office Cost System (IOCS) methodology for sampling city carriers based on the IOCS cluster concept. The estimated impact of this revision if applied in FY 2019 would have been a reduction in unit costs of 2.1 cents. In contrast with these changes, the revised costing methodology used to allocate accrued costs for supervisors at customer service offices on Sundays and holidays, approved in Docket No. RM2019-12 (Proposal Seven), had no material effect on Marketing Mail Flats costs.

Offsetting the one change above that would have increased unit costs (by 0.1 cents) against the three other changes yielding reductions (of 0.2 cents, 0.5 cents, and 2.1 cents), the aggregate estimated impact of these methodology changes would have been a reported FY 2019 unit cost for Marketing Mail Flats that would have been 2.7 cents lower, or 57.7 cents rather than 60.4 cents. Therefore, on a consistent methodology basis, the applicable starting point for an assessment of the Marketing Mail Flats unit cost of 66.4 reported in the FY 2020 CRA is an adjusted base of 57.7 cents for FY 2019. Controlling for methodology improvements, the year-to-year cost difference estimate under consideration is actually 8.7 cents (66.4 cents minus 57.7 cents).

The USPS Marketing Mail Flats financial shortfall was \$781 million in FY 2020, with revenue of \$1.342 billion and costs of \$2.124 billion, an increase compared to FY 2019, when the shortfall was \$744 million.<sup>19</sup> The primary component of the increase in the shortfall is simply the large increase in unit cost outstripping the increase in unit revenue, resulting in a percentage increase in negative unit contribution that exceeded the percentage decline in volume.

**Table 8: USPS Marketing Mail Flats Cost Coverage Shortfall**

Year	Revenue (\$ millions)	Cost (\$ millions)	Shortfall (\$ millions)
2008	3,673	3,891	218
2009	2,882	3,497	616
2010	2,592	3,169	577
2011	2,500	3,143	643
2012	2,234	2,762	528
2013	2,138	2,514	376
2014	2,041	2,452	411
2015	2,113	2,633	520
2016	2,380	2,999	618
2017	1,906	2,574	669
2018	1,649	2,403	753
2019	1,562	2,307	744
2020	1,342	2,124	781

The Postal Service has been making efforts to improve the finances of USPS Marketing Mail Flats above and beyond the minimum requirements set by the Commission. As depicted in Table 7, above, the Postal Service implemented rate increases for USPS Marketing Mail Flats in January 2019 and January 2020 that were above the pricing authority for Marketing Mail. Another increase greater than 2 percentage points above the class average will take effect in January 2021. Although the Postal Service remains committed to taking measures to improve the product's cost

<sup>19</sup> This was a result of revenue of \$1.562 billion and costs of \$2.307 billion.

coverage, it is not able to provide an estimated timeline for phasing out the Flats subsidy. Unit costs change year to year, and CPI is unpredictable, particularly over the long term.

## **5. USPS Marketing Mail Promotions**

During FY 2020, the Postal Service offered five USPS Marketing Mail promotions, discussed below.

### **a. Earned Value Reply Mail Promotion**

A description of the Earned Value Reply Mail Promotion (April 1 to June 30, 2020) is provided in Section I.3.c. above. Over the course of the program, the Postal Service issued \$5.1 million in credits for approximately 390 million BRM, CRM, and Share Mail pieces. To date, approximately \$1.2 million worth of credits have been redeemed on USPS Marketing Mail pieces.

### **b. Tactile, Sensory and Interactive Mailpiece Engagement Promotion**

The Tactile, Sensory and Interactive Mailpiece Engagement Promotion (February 1 to July 31, 2020) provided participating mailers an upfront 2 percent postage discount on regular and nonprofit USPS Marketing Mail letters and flats. To qualify, mail pieces were required to feature advanced print innovations, such as developments in paper stock, substrates, finishing techniques, and inks. Over the course of the promotion, the Postal Service issued \$3.2 million in discounts for approximately 707 million USPS Marketing Mail pieces.

### **c. Emerging and Advanced Technology Promotion**

A description of the Emerging and Advanced Technology Promotion (March 1 to August 31, 2020) is provided in Section I.3.b. above. Over the course of the program,

the Postal Service issued \$14.2 million in discounts for approximately 3.5 billion USPS Marketing Mail pieces.

#### **d. Informed Delivery Promotion**

The Informed Delivery Promotion (October 1 to November 30, 2019, and September 1 to November 30, 2020), provided participating mailers a 2 percent postage discount on mailings that incorporated Informed Delivery campaigns. As of September 30, 2020, the Postal Service issued \$11.2 million in discounts for approximately 2.7 billion Marketing Mail pieces.

#### **e. Mobile Shopping Promotion**

The Mobile Shopping Promotion (October 1 to December 31, 2019, and August 1 to December 31, 2020), provides participating mailers an upfront 2 percent postage discount on regular and nonprofit USPS Marketing Mail letters and flats. To qualify, mail pieces are required to feature mobile technology (such as open-sourced barcodes, proprietary barcodes or tags, and digital watermarks) that connects customers to either a mobile-optimized shopping site or a social media webpage with a click-to-shop feature. As of September 30, 2020, the Postal Service issued \$22.7 million in discounts for 5.1 billion USPS Marketing Mail pieces.

## C. Periodicals

### 1. Cost, Revenues, and Volumes

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

**Table 9: Periodicals Volume, Revenue, and Cost by Product**

Product	Volume (Millions)	Revenue (\$ Millions)	Attributable Cost (\$ Millions) <sup>[1]</sup>	Contribution (\$ Millions)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
In-County Periodicals	469	50	100	(49)	0.11	0.21	(0.11)	50.5
Outside County Periodicals	3,537	969	1,698	(730)	0.27	0.48	(0.21)	57.0
Fees		5						
Total Periodicals (incl. fees)	4,006	1,024	1,798	(775)	0.26	0.45	(0.19)	56.9

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

As shown above, both Periodicals products failed to cover their costs in FY 2020.

Cost coverages for the Periodicals class overall decreased from 64.01 percent in FY 2019 to 56.93 percent in FY 2020. The cost coverage of In-County Periodicals decreased from 57.66 percent in FY 2019 to 50.49 percent in FY 2020. The cost coverage of Outside County Periodicals declined from 64.02 percent in FY 2019 to 57.03 percent in FY 2020. One reason for this decline is declining volume, which results in reduced density, which in turn leads to higher unit costs in mail processing. Mail processing unit cost increased 0.7 cents. Outside County Periodicals delivery unit costs increased by 4 cents, which was primarily the result of a change in costing methodology for in-office city carrier costs. (Docket No. RM2020-10).

Revenue per piece for Periodicals as a whole decreased from 25.8 cents in FY 2019 to 25.6 cents in FY 2020, or -0.8 percent. The decrease is mainly due to a decline in In-County Periodicals revenue per piece. Piece prices were increased in FY 2020, but

pound prices were left unchanged. Total In-County volume declined 6.0 percent, but the increase in piece prices caused the piece revenue to decline only 3.2 percent, leading to an increase in revenue per piece for piece-related revenue. However, the decline in pounds and the associated decline in pound revenue led to an overall decline in In-County Periodicals revenue per piece. Revenue per piece in Outside County Periodicals did not change.

## **2. Workshare Discounts and Passthroughs**

None of the In-County Periodicals workshare discounts was above avoided costs. Only two workshare discounts for Outside Country Periodicals exceeded 100 percent of avoided costs: 3-Digit Machinable Nonautomation (101.8 percent) and 3-Digit Machinable Automation (104.3 percent). Both complied with section 3622(e)(2)(C), which permits discounts provided in connection with mail matter of educational, cultural, scientific, or informational value to exceed 100 percent of avoided costs.

## **3. FY 2019 ACD Directive**

In the FY 2019 Annual Compliance Determination, the Commission directed the Postal Service to submit an updated report analyzing “how the pricing in Docket No. R2020-1 impacted the cost, contribution, and revenue of Periodicals in FY 2020 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2020.”<sup>20</sup> The Postal Service provides its updated report in USPS-FY20-44.

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<sup>20</sup> FY 2019 ACD, at 32.

## D. Package Services

### 1. Cost, Revenues, and Volumes

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

**Table 10: Package Services Volume, Revenue, and Cost by Product**

Product	Volume (Millions)	Revenue (\$ Millions)	Attributable Costs (\$ Millions)	Contribution (\$ Millions)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Bound Printed Matter Flats	211	161	128	33	0.76	0.61	0.16	125.5
Bound Printed Matter Parcels	261	289	308	(19)	1.11	1.18	(0.07)	93.8
Media Mail/ Library Mail	98	349	441	(91)	3.57	4.50	(0.93)	79.3
Alaska Bypass	1	32	22	10	25.47	17.25	8.22	147.6
Fees		1						
Total Package Services Mail (incl. fees)	571	832	899	(67)	1.46	1.58	(0.12)	92.5

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

Overall, the Package Services class had a cost coverage of 92.5 percent. Cost coverage declined from 96.9 percent in FY 2019,<sup>21</sup> which was mostly due to Bound Printed Matter Parcels cost coverage declining by 12.1 percentage points from 105.9 percent in FY 2019 to 93.8 percent in FY 2020. This decline was due to a significant increase in unit costs that was not matched by an increase in unit revenues. Attributable cost per piece increased by 13.9 percent in FY 2020 over FY 2019. This growth in unit costs was primarily driven by the increase in delivery costs that resulted from the recent change in costing methodology for in-office city carrier costs (Docket No. RM2020-10). Per-piece transportation costs also increased modestly.

<sup>21</sup> FY 2019 cost coverage from Appendix A to Financial Analysis of United States Postal Service Financial Results and 10-K Statement.

On the revenue side, because the Postal Service applied most of its Docket No. R2020-1 pricing authority for the class to the non-compensatory Media Mail / Library Mail product, the remaining pricing authority resulted in a below-average price increase of 1.74 percent for Bound Printed Matter Parcels. This caused revenue per piece for Bound Printed Matter Parcels to increase from \$1.099 in FY 2019 to \$1.108 in FY 2020, only 0.86 percent.

As a result, there was a \$19 million contribution shortfall for Bound Printed Matter Parcels in FY 2020. To improve cost coverage going forward, the Postal Service intends to recommend to the Governors to apply an above-CPI price increase to Bound Printed Matter Parcels to improve its cost coverage and revenue.

Cost coverage for Media Mail and Library Mail increased by 7.8 percentage points to 79.3 percent in FY 2020. To further improve on cost coverage, the Postal Service gave Media Mail and Library Mail an above-average increase of 3.579 percent in Docket No. R2021-1. The Postal Service remains committed to improving this product's cost coverage. To that end, the Postal Service intends to recommend to the Governors that they continue applying above class average price increases to Media Mail and Library Mail.

All other Package Services products covered their costs in FY 2020.

## **2. Workshare Discounts and Passthroughs**

All Package Services passthroughs were under 100 percent in FY 2020.

## E. Special Services

### 1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear in the table below.

**Table 11: Special Services Volume, Revenue, and Cost by Service/Product**

Service/Product	Volume (Millions)	Revenue (\$ Millions)	Attributable Cost (\$ Millions) <sup>[1]</sup>	Contribution (\$ Millions)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Certified Mail	168.0	598.1	485.2	112.9	3.56	2.89	0.67	123.27
COD	0.3	3.5	3.0	0.5	11.85	10.18	1.67	116.42
Insurance	16.8	92.7	32.2	60.5	5.51	1.91	3.60	287.96
Registered Mail	1.2	20.6	14.5	6.1	17.86	12.57	5.30	142.14
Stamped Envelopes	N/A	12.2	10.0	2.2	N/A	N/A	N/A	121.70
Stamped Cards	N/A	0.5	0.2	0.3	N/A	N/A	N/A	295.17
Other Ancillary Services	N/A	379.5	273.4	106.1	N/A	N/A	N/A	138.79
Total Ancillary Services	N/A	1,107.0	818.4	288.6	N/A	N/A	N/A	135.26
Int'l Ancillary Services	8.9	22.6	23.7	(1.1)	2.53	2.65	(0.12)	95.33
Caller Service	N/A	86.5	28.2	58.3	N/A	N/A	N/A	307.24
Address Management Services <sup>[2]</sup>	N/A	14.3	5.5	8.7	N/A	N/A	N/A	258.11
Credit Card Authentication <sup>[3]</sup>	20.3	22.0	2.6	19.4	1.08	0.13	0.96	855.20
Money Orders	77.1	153.3	156.9	(3.7)	1.99	2.04	(0.05)	97.66
Post Office Box Service	N/A	298.1	130.1	168.0	N/A	N/A	N/A	229.16
Stamp Fulfillment Services	N/A	8.3	5.8	2.5	N/A	N/A	N/A	142.69
Total Special Services Mail	N/A	1,712.4	1,191.6	520.7	N/A	N/A	N/A	143.70

[1] As the total attributable cost for the class includes inframarginal cost, the sum of the individual products' attributable costs does not equal the total attributable cost of the class.

[2] Revenues for the Address Management Services are as reported in the final FY 2020 Special Services billing determinants which include additional inputs that were unavailable for inclusion in the final Revenues, Pieces, and Weight report due to the timing of the report.

[3] See USPS-FY20-4 for volume and USPS-FY20-NP26 for revenue adjustments after revenue sharing with third-party partners.

Most Special Services covered their costs in FY 2020, while the results for Money Orders and International Ancillary Services were just under full cost coverage. Cost coverage for the previously non-compensatory Stamp Fulfillment Services product improved considerably such that the product covered costs in FY 2020 with a healthy margin.

Note that revenues reported for the Address Management Services in the CRA and the Revenue, Pieces, and Weight Report <sup>22</sup> do not align with those reported in the FY 2020 billing determinants.<sup>23</sup> Certain volumes and revenues in the CRA and RPW were imputed based on historical data because certain data sources were not available in time for inclusion in the final report. The FY 2020 billing determinant revenues reported in the above table for Address Management Services incorporate the actual data that became available after the CRA and RPW reporting date.

## **2. Cost Coverages**

### **a. Stamp Fulfillment Services**

Stamp Fulfillment Services (SFS) had costs of \$5.8 million in FY 2020 and listed revenues of \$8.3 million, resulting in a cost coverage of 143 percent, a marked improvement from past years. Revenues increased significantly from FY 2019 to FY 2020, and costs increased by about \$1.4 million, resulting in an overall positive cost coverage. The increase in revenue for this product stems largely from a shift in consumer behavior in response to the ongoing pandemic. Stamp purchases have migrated from the retail environment to online and phone orders.

### **b. Money Orders**

Money Orders did not cover attributable costs in FY 2020. Costs were \$156.9 million, and listed revenues were \$153.3 million, resulting in a cost coverage of 97.7 percent. Increases in costs were driven in part by shifts in consumer behavior. The face value of purchased money orders increased this fiscal year, which increased the debit

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<sup>22</sup> USPS Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 4, Fiscal Year 2020 (Nov. 13, 2020), *available at* <https://www.prc.gov/dockets/document/115091>.

<sup>23</sup> USPS Billing Determinants for Quarter 3 of Fiscal Year 2020 (Aug. 31, 2020), *available at* <https://www.prc.gov/dockets/document/114420>.

card transaction costs for money orders. Retail window costs also increased this year, contributing to the decline in cost coverage. Prices are scheduled to increase 3.215 percent when Docket No. R2021-1 prices take effect, which should result in improved cost coverage for most of FY 2021.

### **c. International Ancillary Services**

The International Ancillary Services product (MCS section 1510) as a whole did not cover its attributable costs in FY 2020 because Inbound International Registered Mail and Outbound International Return Receipt, which are included within International Ancillary Services, did not cover their costs. As of January 1, 2020, inbound registered mail items associated with Inbound Letter Post Small Packets and Bulky Letters were transferred to MCS section 2615.2 Competitive International Registered Mail on the competitive product list.<sup>24</sup> In FY 2020, there was an increase in costs associated with Inbound International Registered Mail. The additional payment per item for Inbound Registered Mail increased to 1.3 SDR in calendar year 2020, which would have helped to improve cost coverage.<sup>25</sup>

As for Outbound International Return Receipt (part of MCS section 1510.3), there was an increase in window costs because of an increase from one IOCS tally in FY 2019 to two IOCS tallies in FY 2020. The Postal Service raised prices for the Outbound

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<sup>24</sup> See Order No. 4980, Order Conditionally Approving Transfer, Docket No. MC2019-17 (Jan. 9, 2019).

<sup>25</sup> See Second Additional Protocol to the Universal Postal Convention, done at Geneva Sept. 26, 2019, Article 1 (Art. 28 amended), at paragraph 8.

International Return Receipt product from \$4.10<sup>26</sup> to \$4.15 on January 26, 2020.<sup>27</sup>

Prices for the Outbound International Return Receipt product are also scheduled to increase to \$4.25 when the new prices under Docket No. 2021-1 take effect,<sup>28</sup> which should improve cost coverage.

## **F. Market Dominant Negotiated Service Agreements**

### **1. Domestic Negotiated Service Agreements**

There were no domestic Market Dominant NSAs in effect in FY 2020.

### **2. International Negotiated Service Agreements**

In accordance with 39 C.F.R. § 3050.21(f)(6), the Postal Service provides in USPS-FY19-NP2 “financial or other supporting documentation that demonstrates that non-compensatory Market Dominant negotiated service agreements improve the net financial position of the Postal Service over default rates or enhance the performance of mail preparation, processing, transportation, or other functions.”<sup>29</sup>

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<sup>26</sup> See Order No. 4875, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. R2019-1 (Nov. 13, 2018), Attachment, page 85 of 98.

<sup>27</sup> See Order No. 5321, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. R2020-1 (Nov. 22, 2019), Attachment, page 71 of 84.

<sup>28</sup> See Order No. 5757, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. R2021-1 (Nov. 18, 2020), Attachment, page 82 of 95.

<sup>29</sup> See Order No. 4836, Order Amending Rules for Periodic Reporting (Sept. 25, 2018), at 28.

### **III. SERVICE PERFORMANCE, CUSTOMER SATISFACTION, AND CONSUMER ACCESS**

#### **A. Service Performance**

During FY 2010, the Commission issued its final rules on periodic reporting of service performance measurement and customer satisfaction, which are codified at 39 C.F.R. part 3055.<sup>30</sup> Among other things, §§ 3055.20 through 3055.24 require annual reporting of service performance achievements at the national level for all Market Dominant products.<sup>31</sup> The Postal Service's report, including information responsive to the criteria listed in § 3055.2(b)-(k), is included in USPS-FY20-29.<sup>32</sup>

The Postal Service again set for itself aggressive on-time targets for all Market Dominant products in FY 2020.<sup>33</sup> For some products and in some districts, the Postal

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<sup>30</sup> Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11 (May 25, 2010).

<sup>31</sup> Reporting, however, is not required where the Commission has granted a semi-permanent exception or a temporary waiver. *Id.* at 21-23.

<sup>32</sup> Beside the data provided in USPS-FY20-29 as required by part 3055, the Annual Report on Service Performance for Market Dominant Products within USPS-FY20-29 includes plans for improving the performance of specific products. Plans for improvement are provided not only pursuant to the Commission's rules, 39 C.F.R. § 3055.2(h), but also the FY 2019 Annual Compliance Determination Report (ACD). *See, e.g.*, FY 2019 ACD, at 61 (Inbound Letter Post), 119-20 (First-Class Mail), 127 (Marketing Mail), 129 (Periodicals), 133 (Package Services), 136 (P.O. Box Service). In addition to that report on service performance, USPS-FY20-29 also includes a report on methodologies for service performance measurement, in compliance with PRC Order No. 3490, Order Enhancing Service Performance Reporting Requirements and Closing Docket, Docket No. PI2016-1 (Aug. 26, 2016). USPS-FY20-29 also includes certain data and transit/last mile evaluations on First-Class Mail as requested in the Commission's FY 2019 ACD (at 119-21) and certain data on root cause impacts for Marketing Mail as requested in the FY 2019 ACD (at 127) (note that such data are not available at the product level). The non-public portions of those data on First-Class Mail in response to the FY 2019 ACD (at 119-21) are submitted within USPS-FY20-NP30. USPS-FY20-29 includes the updated seven Area-specific reports regarding First-Class Mail service performance as directed in FY 2019 ACD (at 120). Information pertaining to service performance for flat-shaped mail as required by 39 C.F.R. § 3050.50(c) appears in USPS-FY20-45. Finally, USPS-FY20-NP30 includes third-party provided information upon which service performance penalties or bonuses are determined (including estimated forfeited revenues), including for international inbound letter post, parcel post, and EMS, as required by the FY 2019 ACD (at 61), by 39 C.F.R. § 3050.21(j), and by PRC Order Nos. 5212 (at 5) & 5660 (at 7). For inbound letter post, this information in USPS-FY20-NP30 also includes aggregations of weekly failure reports and an analysis of failures as required by FY 2019 ACD (at 61).

<sup>33</sup> In FY 2020, the Postal Service did not change Market Dominant product service standards for any class of mail on a nationwide or substantially nationwide basis.

Service met or exceeded these targets. For example, the Postal Service exceeded its national-level targets for USPS Marketing Mail Parcels, Marketing Mail High Density and Saturation letters (which also improved over FY 2019), Bound Printed Matter Parcels, and International Ancillary and Money Order Inquiry Services. The Postal Service also improved its performance results for several USPS Marketing Mail products: Letters, Every Door Direct Mail – Retail, and Mixed Product Letters all improved over FY 2019. Likewise, performance results for Two-Day and Combined Inbound Single Piece First-Class Mail International improved as compared to last year, as did the performance of Bound Printed Matter Flats.

Even so, a snapshot view of the full year does not adequately describe the Postal Service's service performance. FY 2020 service performance can best be viewed as a year of two distinct phases: the pre-COVID-19 pandemic period covering PQ-1 and PQ-2, and the COVID-19 period covering PQ-3 and PQ-4. The following list not only shows the Market Dominant categories that achieved service improvements in PQ-1 and PQ-2 over the same period in the last fiscal year but also demonstrates the strides the Postal Service was making prior to the pandemic:

- All domestic First-Class Mail categories (each subcategory of Single-Piece, Presort Overnight, and Flats) and Inbound Single-Piece First-Class Mail International;
- All USPS Marketing Mail (both High Density and Saturation Letters and Flats/Parcels, Carrier Route, Letters, Flats, Every Door Direct Mail – Retail, Parcels, and both Mixed Product Letters and Flats);
- All Periodicals (In-County and Outside County);

- Several Package Services (Bound Printed Matter Flats, Bound Printed Matter Parcels, and Media Mail/Library Mail); and
- International Ancillary Services and Post Office Box Service.

These first-half improvements, while indeed widespread, were significant for several categories. Service performance improved in several categories by more than five percentage points: First-Class Mail Single-Piece Three-To-Five Day, all three Inbound Single-Piece First-Class Mail International categories, and USPS Marketing Mail Flats and Mixed Product Letters. Also noteworthy, service performance in 13 categories improved between two and five percentage points: First-Class Mail Single Piece Two-Day, Flats Overnight, and Flats Three-To-Five Day; USPS Marketing Mail High Density and Saturation Letters, Carrier Route, Letters, Every-Door Direct Mail – Retail, and Mixed Products Flats; In-County and Outside Periodicals; Bound Printed Matter Flats and Media Mail/Library Mail; and Post Office Box Service.

Notwithstanding these first-half achievements, circumstances prevented the Postal Service from being able to sustain this progress over the course of the year, and most products did not achieve FY 2020 annual target scores at the national level. Service performance results also declined in most categories in FY 2020 compared to the prior year. The pandemic significantly affected processing, transportation, retail, and delivery operations through, for example, reduced employee availability and contract transportation constraints, even as the Postal Service continued to work to stabilize operations by aligning resources to both meet service performance targets and address significantly declining mail volumes and massive growth in package volumes. The Postal Service's targets are intended to guide longer-term improvement and are based

on the continued evolution of Intelligent Mail barcode systems and on customers' provision of complete item information (*i.e.*, full-service), which enables performance measurement at the necessary levels. Reasons why national scores have not been met, and specific plans for improvement, are discussed in greater detail in the service performance report within USPS-FY20-29.

Though its FY2020 targets were aggressive, and despite the effects of the COVID-19 pandemic, the Postal Service does not accept declines in performance as a matter of course. Rather, the Postal Service is continuously seeking to improve its performance in all categories, and it will seek to devise new strategies for service performance improvement on the whole.

Indeed, the new organizational structure for Operations that has been implemented, with separate functions for retail and delivery on the one hand and processing and logistics on the other, is designed to drive this process of continuous improvement by establishing clear lines of accountability to better enable service performance improvements, enhance communication and oversight, and ensure quicker implementation of strategies and initiatives. That said, as the Postal Service noted in its Annual Report to Congress, service performance targets need to realistically reflect current operating circumstances and its financial condition; the Postal Service therefore has not yet established service performance targets for next year and, as a part of its strategic plan, is reviewing its network capabilities to determine what service levels are achievable in the current environment.

In that regard, the Postal Service is comprehensively examining its operations to identify strategies and opportunities to improve both the reliability and predictability of

service performance, while also enhancing operational efficiency and effectiveness. This will be an element of the strategic business plan being developed by the Board of Governors. Postal Service management will likewise continue to implement operational, technological, and employee training initiatives to enhance day-to-day efficiency and improve the quality of the mail delivery process.

For example, improvement initiatives for on-time departures, which has been an organizational focus over the last two years, will continue into FY 2021 consistent with any court mandates. Another example is the continued use of Network Operations Control Centers to perform real-time data analysis and communicate with plants on issues related to transportation. And the Postal Service's use of new, enhanced, and expanded tools include the Last Mile Diagnostics tool, which provides greater insight into Last Mile failures by location. District personnel will continue to work delivery operations to improve familiarity with and usage of the Last Mile Diagnostics tool to identify individual areas of improvement. The Postal Service will continue to deploy such innovative tools and develop new solutions to help boost its service performance results.

#### **B. Customer Satisfaction with Market Dominant Products**

The Postal Service kept its key customer satisfaction metrics consistent between FY 2018 and FY 2020 – to track trends over time, understand changes in customer satisfaction, and improve customer experience. There were some changes to survey methodology in FY 2020, which are detailed in Section III.B.3. However, these changes do not affect the measurement of key metrics in the Customer Experience (CX) Composite.

Overall, the CX Composite, which provides a comprehensive view of the Postal Service's customer experience across multiple touchpoints, improved by 3.36 points when compared to FY 2019. Specific improvements are detailed in Section III.B.4.

Additionally, section 3652(a)(2)(B)(ii) requires the Postal Service to provide measures of the degree of customer satisfaction with its Market Dominant products, also known as Mailing Services. These results are presented in Section III.B.5.

### **1. Overview**

In FY 2019, the Postal Service created the Customer Experience Department that assumed responsibility for administering Customer Satisfaction Surveys to all customers (*i.e.*, consumers and businesses) during all four quarters of the year. The Customer Experience Department is responsible for the measurement of overall customer satisfaction across seven channels, which includes Market Dominant products.

### **2. Background**

In FY 2020, the Postal Service continued to measure overall satisfaction for the seven CX Composite surveys by combining only the top-two box scores of "Very Satisfied" and "Mostly Satisfied" in accordance with general industry standards for measuring customer satisfaction. These scores are aggregated into the CX Composite. The CX Composite provides a comprehensive view of the customer experience across multiple channels and touchpoints (*e.g.*, retail, delivery, contact center, etc.) that customers use to interact with the Postal Service. Additionally, the Customer Experience Department conducted driver analyses to determine the factors that drive

overall satisfaction for each survey. The top drivers are listed in their respective sections.

### **3. CX Composite Survey Modifications**

To improve the measurement of customer sentiment in FY 2020, the Postal Service modified two of the CX Composite surveys: the Customer 360 (C360) Survey (formerly the Enterprise Customer Care (eCC) Survey) and the Delivery Survey. However, these changes do not affect the comparability of CX Composite scores for FY 2019 and FY 2020. The specific changes to the two surveys are detailed below.

For better alignment and clarity in reporting, the Postal Service changed the name of the eCC Survey to the Customer 360 Survey. Additionally, the Postal Service made the following changes and enhancements to the C360 Survey in FY 2020:

- Added an option for respondents to take the survey in Spanish;
- Moved the question that asks respondents to provide their primary reason behind their rating to directly after the overall satisfaction question instead of after the likelihood to recommend question;
- Added a question to ask respondents whether they were contacted by a Post Office representative and, if they were not contacted, skipping questions about the quality of the representative (survey logic was incorporated to implement this change); and
- Added questions to understand how a customer's most recent interaction with the Postal Service made the customer feel (six-point satisfaction scale) and whether the Postal Service made the customer feel like a valued customer (six-point agreement scale).

Additionally, the Postal Service updated the Delivery Survey. The Postal Service made the following changes to the Delivery Survey in FY 2020:

- Separated the attribute questions (*i.e.*, key factors that influence satisfaction with the delivery experience) to distinguish between mail and packages;
- Changed the scale of the attribute questions from a five-point satisfaction scale to a six-point satisfaction scale to better align with the six-point overall satisfaction question;
- Moved the question that asks respondents to provide their primary reason behind their rating to directly after the overall satisfaction question instead of after the likelihood to recommend question; and
- Added questions to understand how a customer's most recent interaction with the Postal Service made the customer feel (six-point satisfaction scale) and whether the Postal Service made the customer feel like a valued customer (six-point agreement scale).

In its FY 2019 Annual Compliance Determination (ACD), the Commission recommended that the Postal Service modify its customer satisfaction surveys, including by asking customers to explain the reasons for any dissatisfied ratings. In FY 2020, the Postal Service began moving the question that asks respondents to provide their primary reason behind their rating to appear directly after the overall satisfaction question instead of after the likelihood to recommend question. This change allows customers to explain the reasons for both their satisfied and dissatisfied ratings.

Table 12, below, provides a brief description of each of the key satisfaction metrics used in both FY 2019 and FY 2020 to the CX Composite:

**Table 12: FY 2019 and FY 2020 Key Metrics**

National Surveys	Metric Description
Point-of-Sales (POS)	Overall customer satisfaction with the retail experience at the post office (Top-Two Box)
USPS.com	Overall customer satisfaction with the USPS.com website (Top-Two Box)
Delivery	Overall customer satisfaction with the delivery experience (Top-Two Box)
Business Service Network (BSN)	Overall customer satisfaction with the BSN experience (Top-Two Box)
Business Mail Entry Unit (BMEU)	Overall customer satisfaction with the BMEU experience (Top-Two Box)
Customer 360 (C360)	Overall customer satisfaction with quality of service in response to a C360 case/issue (Top-Two Box)
Customer Care Center (CCC)	A composite of overall customer satisfaction with a CCC live agent and overall customer satisfaction with the CCC Interactive Voice Response (IVR) system (Both are Top-Two Box)
Customer Experience (CX) Composite	A weighted aggregate of the above survey results

**4. Survey Results – FY 2020 Scores**

Table 13 provides the weight of each survey in the CX Composite, which has not changed since FY 2018, and the overall satisfaction scores for each survey for FY 2019 and FY 2020:

**Table 13: FY 2019 and FY 2020 Results**

National Surveys	Weight (%)	FY 2019	FY 2020	Year-Over-Year Change
POS	15	87.77	87.46	(0.31)
USPS.com	5	72.94	73.41	0.47
Delivery	20	80.40	80.94	0.54
BSN	10	96.68	97.33	0.65
BMEU	10	96.00	96.72	0.72
C360	20	37.45	40.05	2.60
CCC	20	46.94	60.03	13.09
CX Composite	100	69.04	72.40	3.36

**a. POS Survey Results**

Overall satisfaction as measured by the Point of Sales (POS) Survey slightly decreased by 0.31 points between FY 2019 and FY 2020 to a score of 87.46 points.

This decrease was largely due to unforeseen consequences resulting from the COVID-

19 pandemic. To protect the safety of its customers and employees, and to improve satisfaction and bring customers back into its retail lobbies, the Postal Service adopted the following procedures at all 30,000 retail locations in response to recommendations issued by the Center for Disease Control and Prevention on social distancing:

- Placed markings on the floor to maintain six feet of social distancing;
- Limited the number of customers in the retail facilities to no more than 10 at a time; and
- Installed cough and sneeze barriers at all retail counters.

In FY 2021, the Postal Service will continue to maintain the retail safety measures that it implemented in FY 2020, including social distancing initiatives and the use of cough and sneeze barriers. Additionally, the Postal Service will launch a Self-Service Kiosk (SSK) Prepaid Acceptance Pilot, which will provide contactless transactions for customers who require a receipt when mailing a prepaid package. This will help improve customer wait times and support social distancing by eliminating the need for some customers to wait for a counter representative. The Postal Service will also use the Customer Display Unit (CDU) at retail locations to ask for customer feedback, which will provide instant feedback for management to follow up on issues in real time.

## **b. USPS.com Survey Results**

Overall satisfaction, as measured by the USPS.com Survey, increased by 0.47 points between FY 2019 and FY 2020 to a score of 73.41 points. In FY 2020, the Postal Service enhanced its website, USPS.com, based on customer feedback from the USPS.com survey and usability testing with customers. These enhancements focused on task completion, functionality of website tools, and website navigation to address the needs of customers and improve the overall digital experience. Specifically, the Postal Service updated the website content pages and applications for Search Engine Optimization (SEO), which made it easier for customers to find the information they were looking for and to successfully complete their tasks. The Postal Service also updated the “Help” section of the website, making it easier for customers to help themselves on the site if they had questions. Additionally, the Postal Service optimized the Postal Store to be mobile responsive, allowing customers to easily use their mobile device to order products, stamps, and merchandise.

In FY 2021, the Postal Service anticipates updating both the international section and the Post Office locator of USPS.com. Additionally, the Postal Service anticipates enhancing the support available for small business customers on USPS.com, including by developing a small business portal and expanding the reach of the USPS Loyalty Program. The USPS Loyalty Program allows small businesses to earn credits for purchases of Priority Mail and Priority Mail Express labels in the Click-N-Ship application. In addition to applying credits to future purchases of these products, this program also offers opportunities for business account customers registered on USPS.com to earn additional benefits as their shipping volumes grow. Finally, the

Postal Service anticipates reviewing the tracking application on USPS.com with internal stakeholders to determine possible enhancements that would improve the usability of this application for its customers.

**c. Delivery Survey Results**

Overall satisfaction as measured by the Delivery Survey increased 0.54 point between FY 2019 and FY 2020 to a score of 80.94 points. The top drivers for delivery satisfaction are whether the package was delivered on time and whether it was delivered to the correct address. Tables 14 and 15, below, detail the results of the Delivery survey in FY 2019 and FY 2020.

**Table 14: FY 2019 Delivery Survey Scores (Top-Two Box Percent)**

Delivery Residential and Small Business	FY 2019 Total
Overall Satisfaction (OSAT)	80.40
Mail or packages are delivered to the correct address.	81.32
Mail or packages are delivered in good condition.	88.74
Letter carriers are friendly and courteous.	86.75
The PO Box is meeting my needs.	87.76
Packages are delivered on time based on expected day of delivery.	83.68
Tracking information for packages is accurate.	85.86
Instructions for what to do after receiving a missed delivery notice are clear	75.64

**Table 15: FY 2020 Delivery Survey Scores (Top-Two Box Percent)**

Delivery Residential and Small Business	FY 2020 Total
Overall Satisfaction (OSAT)	80.94
Mail is delivered to the correct address. <sup>[1]</sup>	81.31
Mail is delivered in good condition. <sup>[1]</sup>	91.46
Letter carriers are friendly and courteous. <sup>[1]</sup>	90.67
Instructions for what to do after receiving a missed delivery notice are clear. <sup>[1]</sup>	81.29
Packages are delivered to the correct address. <sup>[1]</sup>	87.28
Packages are delivered in good condition. <sup>[1]</sup>	91.48
Packages are received by date expected. <sup>[1]</sup>	83.20
Knowing what time my package is arriving ahead of time improves my overall delivery experience. <sup>[1]</sup>	91.97
The email/text notification message clearly conveyed the date and time my package would be delivered. <sup>[1]</sup>	87.61

[1] Results are for 12/30/2019 to 9/30/2020. The Delivery survey was updated on 12/30/2019.

Throughout the COVID-19 pandemic, the Postal Service continued to fulfill its mission of providing essential services to communities within the United States while delivering a world-class customer experience. For instance, to improve the delivery experience, the Postal Service implemented the Mobile Delivery Device (MDD) Geo-Alert pilot. Under this pilot, when a mail piece is scanned as “delivered,” a notification is sent to the MDD if the geo-location does not match the recorded address on the mail piece. This pilot was designed to improve delivery accuracy and enhance the customer experience. Based on the results of this pilot, the Postal Service may deploy this type of initiative nationally in FY 2021.

In FY 2021, the Postal Service also anticipates conducting two additional pilots. First, the Postal Service will conduct a pilot in the Triboro, New York, area at locations with high Failed First Attempts (FFA) deliveries. To reduce FFA at these locations, the Postal Service will pilot an initiative to replace existing Centralized Box Units (CBU) with Neighborhood Post Boxes (NP). NP Boxes have much larger compartments than CBUs

and are expected to accommodate more and larger customer packages. Second, the Postal Service will test smart locker units in the Northern Virginia area. This pilot will allow customers more options for package delivery, including direct delivery or redelivery to these secured lockers.

#### **d. BSN Survey Results**

Overall satisfaction as measured by the Business Service Network (BSN) survey increased by 0.65 points between FY 2019 and FY 2020 to a score of 97.33 points. This improvement was driven by the Postal Service's focus on issue resolution, which is the top driver of satisfaction for BSN customers.

In FY 2020, the Postal Service implemented a process to confirm that BSN customers' issues were adequately resolved through a closed-loop feedback process. Specifically, after a BSN representative closed a service request, the customer would receive an email notifying the customer of the resolution. If not adequately resolved, the customer could directly email the BSN team. This email from the customer would notify the BSN team that the customer was not satisfied and provide the BSN team with the opportunity to improve the customer's experience. Additionally, in an effort to use data to guide improvements, the Postal Service ensured that BSN customer satisfaction score reports were regularly shared with Area Managers and District Managers in order to understand positive and negative survey responses. The BSN team created improvement plans for districts with low scores. In FY 2021, the Postal Service will continue to focus on these key areas.

The Postal Service is also helping BSN employees and Consumer and Industry Contact (C&IC) Managers address additional issues and concerns before closing a

customer's issue. The Postal Service will continue to apply this closed loop feedback process that launched in FY 2020 to all service requests. In addition, if a customer contacts the Postal Service and indicates that the resolution achieved is not sufficient, a BSN representative will re-open the service request, which will remain open until the customer receives a satisfactory resolution.

#### **e. BMEU Survey Results**

Overall satisfaction as measured by the Business Mail Entry Unit (BMEU) Survey increased by 0.72 points between FY 2019 and FY 2020 to a score of 96.72 points. The improvement in the BMEU score was driven by the Postal Service's focus on issue resolution, which is the top driver of satisfaction for BMEU customers.

In FY 2020, the Postal Service offered a new training to BMEU personnel focused on how to create and deliver a world-class customer experience. The Postal Service also updated job aids to make them easier for employees to use. Additionally, the Postal Service provided coaching and mentoring to employees to equip them with the resources and knowledge they need to deliver a superior issue resolution experience.

In FY 2021, the Postal Service will continue to leverage the successful strategies and initiatives that it used in FY 2020 to improve customer service. These initiatives include improving issues resolution, implementing topical trainings, updating job aids to assist in employee knowledge, and coaching and mentoring all employees that serve BMEU customers.

## **f. C360 Survey Results**

In FY 2020, the Postal Service renamed the Enterprise Customer Care (eCC) Survey to the Customer 360 (C360) Survey to align with its new customer relationship management platform, Customer 360. The name change does not affect the comparability of overall satisfaction scores of the C360 Survey to the results of the eCC Survey from prior years.

Overall satisfaction as measured by the C360 Survey increased by 2.60 points from FY 2019 to FY 2020 to a score of 40.05 points, despite challenges related to the COVID-19 pandemic, which had a negative impact on employee availability and a marked increase in the volume of customer inquiries received by the Postal Service. The main drivers of C360 satisfaction are initial contact with a customer within 24 hours and whether the customer's issues were all resolved.

To improve the Postal Service's initial contact with customers in FY 2020, the Postal Service implemented enhancements to C360's notification features. Specifically, the Postal Service launched a feature to send email notifications to field personnel to increase visibility to customer cases as these cases are created throughout the day. These near real-time notifications empowered field personnel to immediately reach out to customers and quickly address their questions and concerns. These notifications were sent to field personnel during the week, weekends, and holidays, enabling all staff to handle cases in a timely manner.

To improve issue resolution in FY 2020, the Postal Service provided employees with updates to both job aids and standard work instructions. Additionally, as the Postal Service made improvements to the C360 platform, field personnel participated in trainings

and weekly information sessions to ensure that they could successfully navigate these new enhancements.

In FY2021, the Postal Service will implement additional enhancements to the C360 platform's reporting features. For example, the Postal Service anticipates implementing new reporting attributes that will measure average time to initial contact with the customer in order to provide real-time, actionable data to enable personnel to track and improve the average time it takes to respond to a customer's inquiries. In addition, these reports will empower field leadership to improve current response times for their area of responsibility.

To improve issue resolution, the Postal Service anticipates developing supplemental training materials and guides, focused on ramping up new users to the C360 platform. Once developed, the Postal Service will distribute these materials to new users of the C360 platform. In addition, the Postal Service will create two cross-functional teams comprised of Subject Matter Experts (SMEs) to coach, train, and motivate personnel to deliver an exceptional customer experience. One team will focus on how to leverage real-time, actionable reports to improve initial contact and resolution performance. The second team will leverage the C360 platform to deliver a quick, successful, and quality resolution.

#### **g. CCC Survey Results**

Overall satisfaction as measured by the Customer Care Center (CCC) Survey significantly improved by 13.09 points between FY 2019 and FY 2020 to a score of 60.03 points. The CCC empowered customers to self-help online, enhanced features in

the Interactive Voice Response (IVR), and minimized service disruptions from the COVID-19 pandemic.

During FY 2020, the Postal Service made a number of updates and enhancements that led to the improved CCC Survey results. First, the Postal Service updated and enhanced the self-help features on the USPS.com website, including the Frequently Asked Questions (FAQs), in order to reduce the need for customers to contact the CCC. Updated topics in the FAQs also include Hold Mail, Missing Mail, and Change of Address. Second, the Postal Service enhanced certain features of the IVR system. The CCC expedited customer calls by providing enhanced self-serve options using Short Message Service (SMS). Customers are now able to receive text messages while in the IVR system. This resulted in lower call volume to live agents. Third, the Postal Service quickly adjusted to changes from the COVID-19 pandemic by allowing certain employees to work from home, which increased employee availability and reduced wait time for customers.

In addition to enhanced SMS options, the Postal Service is piloting a virtual agent for passport calls. The pilot assists customers with scheduling, modifying, or cancelling passport appointments, which provides agents more time to handle other customer inquiries. In addition, the virtual agent can address certain passport inquiries from customers while also providing customers with automated responses for certain frequently asked passport questions. The Postal Service will use the results from this pilot to inform its future decisions about how to expand the virtual agent pilot program.

The Postal Service has a number of initiatives planned for FY 2021 to enhance experience of its customers while at the same time increasing the Postal Service's

ability to generate revenue. One initiative is to develop and roll out a revamped lead generation program to train the Postal Service's entire agent population to identify business lead opportunities. This increased awareness of all agents will allow the Postal Service to better serve business customers by matching them with products and services that meet their needs while also possibly increasing the Postal Service's ability to generate revenue. Another initiative is to implement a new credit card processing platform technology that will expand the ability for the Postal Service's care center agents to process sales. This will streamline the stamps ordering process for agents and customers alike, while at the same time opening doors for the CCC to offer customers other revenue generating products and services. In addition to generating revenue, this initiative will enhance the customer experience by providing customers more options for doing business with the Postal Service.

## **5. Market Dominant Product Satisfaction: Methodology**

To measure customer satisfaction with Market Dominant products, the Postal Service leveraged data from the Delivery and Large Business Panel (LBP) Surveys. For the Delivery Survey, Residential and Small/Medium Business customers were randomly selected, contacted by mail, and offered the opportunity to complete an online or phone survey. Residential and Small/Medium businesses were 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. The LBP Survey is a relational panel survey, which measures business customer satisfaction for large businesses with 500 or more employees (up from 250 employees in FY 2019). The Postal Service conducted

this survey monthly to account for seasonal variances. This survey consists of 16 evaluation questions and two open-ended questions.

In FY 2020, both the LBP and Delivery Surveys were updated to more accurately measure customer satisfaction with Market Dominant products. Among other things, the Postal Service:

- Updated all product descriptions to reflect the Postal Service's current, approved language;
- Included separate international and domestic product satisfaction questions to ensure that sentiment could be measured for each of these distinct product groups;
- Added new options to measure product satisfaction with specific international products (e.g., First-Class Mail International);
- Removed Marketing Mail and Periodicals from the residential customer survey because these products are typically sent by business customers; and
- Added screener questions to the LBP survey to verify that respondents have decision-making authority and that their business employs at least 500 people (up from 250 people in FY 2019), which is in accordance with general industry standards.

Due to these updates to the Delivery and LBP Surveys, product satisfaction scores for Market Dominant products cannot be compared to Delivery and LBP Surveys scores from prior years. Since product satisfaction scores are not included in the CX Composite, these changes did not affect the CX Composite score. As with the CX Composite overall satisfaction metrics, the Postal Service continues to measure

satisfaction with Market Dominant products by combining the top two box scores of “Very Satisfied” and “Mostly Satisfied,” in accordance with general industry standards for measuring customer satisfaction.

## 6. FY 2020 Ratings for Market Dominant Products

This section discusses the breakdown of product satisfaction for Market Dominant products for all customers in FY 2020 and FY 2019.

### a. Overall Satisfaction with Market Dominant Products

Tables 16 and 17, below, show the product satisfaction results for Market Dominant products in FY 2019 and FY 2020. However, due to modifications to the Delivery and LBP Surveys, product satisfaction results are not comparable between years.

**Table 16: FY 2019 Product Satisfaction with Market Dominant Products  
(% Rated Very/Mostly Satisfied)**

Market Dominant Products (Mailing Services)	Residential	Small / Medium Business	Large Business
First-Class Mail® (letters, bills, postcards, large envelopes)	86.41	82.79	74.36
Periodicals (newspapers and magazines)	83.65	80.64	66.62
USPS Marketing Mail (formerly Standard Mail- advertising, catalog, non-profit)	75.85	77.40	66.11
USPS Retail Ground (lower-cost service, surface transportation)	83.25	81.81	68.34
Media Mail (books, videos, CD, DVDs)	83.04	83.12	65.84
Library Mail (film and music for schools and libraries)	79.93	81.52	63.50
Single Piece International (includes letters, postcards, packages)	81.61	79.21	68.18

**Table 17: FY 2020 Product Satisfaction with Market Dominant Products  
(% Rated Very/Mostly Satisfied)**

Market Dominant Products (Mailing Services)	Residential <sup>[1]</sup>	Small / Medium Business <sup>[1]</sup>	Large Business <sup>[2]</sup>
First-Class Mail (postcards, letters, bills, large envelopes)	91.44	90.07	83.09
Periodicals (newspapers, magazines)	N/A <sup>[3]</sup>	87.24	79.43
USPS Marketing Mail (advertising, catalog, non-profit)	N/A <sup>[3]</sup>	80.22	80.71
USPS Retail Ground (lower cost service, surface transportation)	89.43	88.28	N/A <sup>[3]</sup>
Media Mail (books, CDs, DVDs)	86.60	85.59	78.97
Library Mail (Schools & Libraries 2-8 days)	81.62	82.53	80.29
First-Class Mail International (postcards, letters, bills, large envelope)	85.30	82.05	88.75

[1] Results are for 12/30/2019 to 9/30/2020. The Delivery Survey was updated on 12/30/2019.

[2] Results are for 10/25/2019 to 9/30/2020. The LBP Survey was updated on 10/25/2019.

[3] Customer segment was not asked about product type in FY 2020.

As displayed in the tables, the products with the highest levels of satisfaction for both Residential and Small/Medium Business customers in FY 2020 are First-Class Mail (91.44 and 90.07 points, respectively) and USPS Retail Ground (89.43 and 88.28 points, respectively). For Large Business customers, the products with the highest levels of satisfaction in FY 2020 are First-Class Mail International (88.75 points) and First-Class Mail (83.09 points).

**b. Actions Taken to Improve Product Satisfaction with Market Dominant Products**

In its FY 2019 ACD, the Commission directed the Postal Service to describe the actions taken to improve customer satisfaction with Market Dominant mailing services for each customer type in FY 2020. In FY 2020, the Postal Service continued to support all mailers (*i.e.*, Residential and Business customers), in collaboration with industry associations, alliance partners, and Postal Customer Councils, by identifying

opportunities to educate customers about the Postal Service's products, product requirements, mailing standards, and operational processes.

The COVID-19 pandemic, however, had profound impacts on the Postal Service and its customers. Residential customers relied on package delivery, and traditional letter and flat services declined. For Small Business customers, the Postal Service launched the Every Door Direct Mail Retail Discount Promotion (EDDM-Retail) to help small businesses market their products and services in an effort to acquire new customers and reconnect with existing customers. This promotion was specifically designed to address the impacts of the pandemic on Small Business customers. EDDM-Retail is a simple way for these businesses to use mail to market their products, services, and business model changes (*e.g.*, delivery, curbside pickup, etc.) on a localized basis. EDDM-Retail also successfully encouraged small business mailers to start or re-start mailing with the Postal Service and thereby served to mitigate the decline in the Postal Service's advertising mail due to the pandemic. The EDDM-Retail promotion began on August 1, 2020, and ran through September 30, 2020. During the program, average volume was 13 percent higher and revenue was 1.9 percent higher than average July 2020 (leading up to the promotion) performance and revenue.

In its FY 2019 ACD, the Commission noted that the Postal Service should continue to focus on its top drivers of customer satisfaction for Large Business customers: Service and Product Offerings, Payment Options, and Building Customer Relationships. For all business mailers (*i.e.*, Small/Medium Businesses and Large Businesses) in FY 2020, the Postal Service focused its efforts on providing continued

customer support, implementing new promotions, and collaborating with industry members to facilitate continuous service and product improvements.

For instance, the Postal Service continued to provide responsive support to mailers to enable them to incorporate certain technologies such as Informed Delivery within a mailing. This helped increase mailers' end customer engagement with each mail piece. Additionally, the Postal Service focused on driving participation in the Informed Delivery service, which can be leveraged by businesses of any size, through a promotion. The promotion provided a discount on postage for business mailers who launched Informed Delivery interactive campaigns with their physical mail pieces. The Postal Service's promotions team also increased the number of proactive outreach calls to customers participating in the promotion in order to proactively address any questions or issues with the Informed Delivery service. Moreover, the Postal Service engaged with industry members on a monthly basis to discuss status, issues and questions, as well as solicit input and feedback.

In its FY 2019 ACD, the Commission also noted that if customer satisfaction with Market Dominant mailing services continues to decline for residential and small/medium business customers, the Postal Service must explain why and describe plans for improving customer satisfaction in FY 2021. Because satisfaction for Market Dominant mailing services are not comparable to last year, the Postal Service intends to closely monitor score trends in FY 2021. In FY 2021, the Postal Service plans to simplify requirements for additional promotions to help make it easier for mailers and shippers to understand and participate. Additionally, the Postal Service will continue to work with customers to identify opportunities to simplify and enhance products and services.

## **7. Conclusion**

In FY 2021, the Postal Service will continue to prioritize the delivery of excellent customer experiences across multiple channels. This includes improving the way the Postal Service engages with customers, making it easier for Postal Service employees to deliver excellent customer service, and enhancing how the Postal Service measures customer experiences. The Postal Service strives to provide a consistent customer experience across all channels for every customer.

To emphasize the organization's commitment to improve customers' experiences, the Postal Service will continue to provide leadership, cross-functional coordination, and focused attention on improving both the customer experience itself and the measurement of customer experience. For consistency and organizational knowledge, the Postal Service will keep the same measurement structure for FY 2021. The surveys included in the CX Composite and their representation in the Composite will remain the same to allow the Postal Service to monitor progress and target areas for improvement.

### **C. Consumer Access to Postal Services**

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY20-33.

At the end of FY 2020, there were 26,362 Post Offices and 4,968 stations, branches, and carrier annexes; 2,094 Contract Postal Units (CPUs); 590 Village Post Offices (VPOs); 437 Community Post Offices (CPOs); and 6,192 Approved Shipper active locations. Nationally, there were 140,845 collection boxes available at the end of FY 2020, compared to 142,300 at the beginning of the fiscal year.

Excluding suspended units, the Postal Service did not close any retail facilities in FY 2020. Average wait time in line increased at the national level from 2 minutes 08 seconds in FY 2019, to 2 minutes 26 seconds in FY 2020. Although the wait time increased, the Postal Service is committed to its customers and to making postal services more convenient to the public during the pandemic.

In 2016, the Commission expressed concerns with the number of Post Offices in suspension status. Since that time, the Postal Service has made significant efforts to resolve the 662 offices identified in suspension status in the ACR2016 docket. In FY 2017 and FY 2018, respectively, the Postal Service addressed, resolved, and removed 343 and 69 offices from the original list of 662 suspended offices. By the end of FY 2019, the Postal Service had reduced the number of suspended offices by a total of 434, with 228 remaining.

In FY 2019, the Postal Service implemented certain changes to counteract the challenges that had impacted its ability to address, resolve, and complete the remaining offices in suspension status. These included investigating the possibility to address and resolve 80 offices in an expedited manner (though the Postal Service later determined that an expedited process would not be available for those offices), dedicating one position to the Change Suspension Discontinuance Center (CSDC) and Handbook PO-101 (discontinuance) efforts, conducting touchpoint teleconferences with field teams on submitting accurate and complete documentation for the discontinuance process, and preparing and distributing procedural information on the CSDC systems and Handbook PO-101 for field personnel.

In FY 2020, the Postal Service continued reducing the number of suspended offices. During Quarter 1, four previously suspended post offices were re-opened, seven in Quarter 2, three in Quarter 3, and two in Quarter 4. In addition, one office (United Nations Station) was deemed outside the Postal Service's control and was removed from the list. At the end of FY 2020, the remaining suspended total was reduced to 211 offices.

The COVID-19 pandemic and Postal Service policies pausing facility changes disrupted the processes that had been implemented to achieve final resolution of the remaining suspended offices. By the end of Quarter 2, the Postal Service had conducted community meetings for 56 of the remaining suspended post offices. In Quarter 3, due to COVID-19 guidelines, the Postal Service conducted community meetings via online and telephone conference platforms. However, the Postal Service decided on August 24, 2020, that all customer-facing activities for the remaining 211 Post Offices would be paused until January 2021.

As a result of that decision, the Postal Service intends to reevaluate the status of each of the remaining suspended post offices in 2021 to determine the proper course of action for each of them. If the Postal Service determines that a post office should not be reopened, it will then need to determine the status of the discontinuance process. Where appropriate, the Postal Service will prepare to start these processes in 2021. For instance, suspended offices that posted notices to complete due diligence in 2020 will have to re-post, repeat other steps outlined in Handbook PO-101, and, if necessary, conduct new community meetings.

Therefore, due to the Postal Service's ongoing restructuring process and the future need to reevaluate the remaining 211 suspended post offices, the Postal Service does not necessarily anticipate the ability to resolve the status of each of the remaining 211 suspended post offices by the end of calendar year 2020. The Postal Service also cannot provide an updated timeline for resolving this matter until the Postal Service can reevaluate the status of each of the remaining 211 suspended post offices in 2021.

#### **IV. COMPETITIVE PRODUCTS**

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

For FY 2020, cost, revenues, and volumes for competitive products of general applicability are shown directly in the CRA and ICRA. In the public CRA, competitive products are disaggregated into six groups—Total Priority Mail Express, Total (non-Express) Priority Mail, Total First-Class Package Service, Total Ground, Total International Competitive, and Total Domestic Competitive Services. The constituent products for each of those groups are listed in a table in the attached Application of the United States Postal Service for Nonpublic Treatment of Materials (Attachment Two). Those groups are further disaggregated in the Nonpublic CRA (USPS-FY20-NP11). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2019 are presented in the ICRA materials within USPS-FY20-NP2. For domestic competitive products not of general applicability, information is provided in USPS-FY20-NP27.

##### **B. Section 3633 Standards**

This section addresses compliance with the competitive product pricing standards of section 3633, which have been implemented by the Commission at 39 C.F.R. § 3035.107.

##### **1. Section 3633(a)(1)**

Section 3633(a)(1) requires that competitive products not be cross-subsidized by Market Dominant products. The Commission defines the most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.<sup>34</sup>

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<sup>34</sup> See 39 C.F.R. § 3035.107(a).

Under this test, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall have not been cross-subsidized by Market Dominant products. As it has done for the last several years, the Postal Service this year is again relying on a single direct estimate of the group incremental costs of all competitive products, domestic and international, using the procedure approved in Docket No. RM2018-6 in Order No. 4719 (July 19, 2018).

The group incremental cost estimate for domestic competitive products, the group incremental cost estimate for international competitive products, and the group incremental cost estimate for the group of all competitive products—fully documented in USPS-FY20-NP10—are presented below. Note that the estimate for all competitive products is calculated separately from those for domestic and international and thus is not merely the sum of those two estimates.

**Table 18: FY 2020 Incremental Cost Calculation For Total Competitive Products (in \$000)<sup>[1]</sup>**

	Volume Variable & Product Specific Cost	Group Specific	Group Inframarginal	Group Incremental
Total Domestic Competitive Incremental	17,256,756	60,371	624,767	17,941,894
Total International Competitive Incremental	1,451,295		326	1,451,621
Total Competitive	18,708,051	60,371	658,233	19,426,654

[1] The Group Inframarginal for Total Competitive are estimated separately, and thus they (the Total Competitive Incremental) are not the sum of the previous two rows.

The total competitive group incremental cost of \$19.427 billion is well below total competitive products revenue of \$30.522 billion (shown on page 3 of USPS-FY20-1). Therefore, based on these estimates, it is clear that competitive products in FY 2020

were not cross-subsidized by Market Dominant products and thus were in compliance with section 3633(a)(1).

## **2. Section 3633(a)(2)**

Section 3633(a)(2) requires that each competitive product cover its costs (*i.e.*, maintain a cost coverage of at least 100 percent). Consistent with the last several years, the CRA Reports for FY 2020 presented in USPS-FY20-1 and USPS-FY20-NP11 show product-level attributable costs for each domestic product as the sum of volume variable costs, product specific costs, and the inframarginal costs estimated as part of the incremental costs for that product. Similarly, using the proxy methodology also approved in Order No. 4719 (July 19, 2018), corresponding attributable cost estimates for domestic competitive NSA products are presented in USPS-FY20-NP27. For international products, however, attributable costs continue to reflect, as in prior years, the sum of volume variable and product specific costs. As shown in the Nonpublic CRA (USPS-FY20-NP11), USPS-FY20-NP27, and the ICRA (USPS-FY20-NP2), nearly every domestic and international competitive product maintained a cost coverage of at least 100 percent. The limited exceptions are discussed below.

### **a. Domestic Competitive Products**

As detailed in the preface to USPS-FY20-NP27, there was one domestic NSA that did not cover its costs in FY 2020, Priority Mail Contract 279. That contract was terminated on October 13, 2019. In addition, five contracts had one component (of multiple components) that did not cover costs. Across all products covered by the

contract, however, all five contracts had total revenues in excess of total costs at the NSA Docket level.<sup>35</sup>

## **b. International Competitive Products**

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

First, Inbound Letter Post Small Packets and Bulky Letters (MCS section 2340) did not cover its costs. As of January 1, 2020, Inbound E-format Letter Post, which consists of small packets and bulky letters, was transferred to the Inbound Letter Post Small Packets and Bulky Letters product (MCS section 2340) on the competitive product list.<sup>36</sup> The Postal Service introduced much higher self-declared rates for the majority of Inbound Letter Post Small Packets and Bulky Letters effective July 1, 2020, which were in effect for the last quarter of FY 2020.<sup>37</sup> Moreover, due to the COVID-19 pandemic and air transportation capacity issues, the volume of E format items during the last quarter was not sufficient to repair the effects of the prior two quarters, for which the default Convention rates applied. Specifically, for the period from January 1, 2020, to July 1, 2020, the applicable prices were set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention. However,

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<sup>35</sup> As listed in the preface to USPS-FY20-NP27, the five contracts involved are Docket Nos. CP2019-165, CP2019-154, CP2018-157, CP2018-261, and CP2019-107.

<sup>36</sup> See Order No. 4980, Order Conditionally Approving Transfer, Docket No. MC2019-17, January 9, 2019. See *also* Order No. 5152, Order Approving Range of Rates for Inbound Letter Post Small Packets and Bulky Letters and Associated International Registered Mail Service, Docket No. CP2019-155, July 12, 2019 and Order No. 5372, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, Docket Nos. MC2019-17 and CP2019-155 (Dec. 19, 2019).

<sup>37</sup> As a result of the Universal Postal Union's Extraordinary Congress held in September 2019, rates for small packets and bulky letters increased on January 1, 2020, for Convention-prescribed E-format rates. The Commission favorably reviewed those proposed prices, as well as the prices proposed for July 1, 2020, for Inbound Letter Post Small Packets and Bulky Letters. Rates increased on July 1, 2020, as the United States was able to self-declare rates for inbound E-format items destined for the United States subject to certain business rules. See Order No. 5372.

even during that period, the Postal Service earned revenue associated with tracking charges for Inbound Letter Post Small Packets and Bulky Letters items, which is not included in the cost coverage calculation for Inbound Letter Post Small Packets and Bulky Letters, as such tracking products are classified separately in the MCS.

Second, Inbound Competitive International Registered Mail (a portion of MCS section 2615.2) did not cover its costs. As of January 1, 2020, inbound registered mail items associated with Inbound Letter Post Small Packets and Bulky Letters were transferred to the competitive product list.<sup>38</sup> In FY 2020, there was an increase in costs associated with Competitive International Registered Mail. The additional payment per item for Inbound Registered Mail increased to 1.3 SDR in calendar year 2020 and is scheduled to increase to 1.4 SDR in calendar year 2021, which should help to improve cost coverage.<sup>39</sup>

In addition, the Postal Service participates in the voluntary supplementary remuneration for inbound registered items, and this too furnishes additional revenue for inbound registered items. Furthermore, the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement, which was also transferred to the competitive product list,<sup>40</sup> creates another separate source of contribution associated with Inbound Registered Mail from those countries that exchange items under the agreement.

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<sup>38</sup> See Order No. 4980, Order Conditionally Approving Transfer, Docket No. MC2019-17, January 9, 2019.

<sup>39</sup> See Second Additional Protocol to the Universal Postal Convention, done at Geneva Sept. 26, 2019, Article 1 (Art. 28 amended), at paragraph 8.

<sup>40</sup> Order No. 5437, Order Approving Transfer of Market Dominant Negotiated Service Agreements to the Competitive Product List, Docket No. MC2020-73 (Feb. 19, 2020).

Third, both the inbound and outbound components of International Money Transfer Service (IMTS) were reported to be below cost in FY 2020. In Order No. 2825, the Commission approved Proposal Five, which established a non-In-Office Cost System (IOCS) methodology to distribute IMTS costs to IMTS-Outbound and IMTS-Inbound based on transaction volume. One of the reasons behind the methodology change was that in some fiscal years, the Postal Service was not able to distribute costs to IMTS-Inbound due to the lack of Inbound IOCS tallies.<sup>41</sup> In FY 2020, there were only two IOCS tallies in FY 2020, one for the IMTS-Outbound and one for the IMTS-Inbound products. As a result, IMTS costing remains subject to variation. There were increased costs in window services.

The Postal Service intends to address cost coverage issues with IMTS-Inbound by terminating or modifying IMTS-Inbound agreements. As of August 30, 2019, the international postal money order agreement with Canada was terminated.<sup>42</sup> Additionally, Japan Post discontinued selling international postal money orders destined to the United States on December 31, 2019, and the Postal Service stopped selling international postal money orders destined for Japan effective March 27, 2020.<sup>43</sup> Lastly, as the Postal Service described in its response to a Commission request in the

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<sup>41</sup> Order No. 2825, Order Approving Analytical Principles used in Periodic Reporting (Proposal Five), Docket No. RM2015-13 (Nov. 19, 2015).

<sup>42</sup> See IMM Revision: Termination of International Postal Money Order Service with Canada Post, *Postal Bulletin* 22527 (Aug. 29, 2019), available at [https://about.usps.com/postal-bulletin/2019/pb22527/html/updt\\_002.htm](https://about.usps.com/postal-bulletin/2019/pb22527/html/updt_002.htm).

<sup>43</sup> See Postal Service to Terminate International Postal Money Order Service with Japan Post, *Postal Bulletin* 22541 (Mar. 12, 2020), available at [https://about.usps.com/postal-bulletin/2020/pb22541/html/info\\_006.htm](https://about.usps.com/postal-bulletin/2020/pb22541/html/info_006.htm).

ACR2019 docket,<sup>44</sup> the Postal Service has obtained a delegation of authority under the Circular 175 process from the Department of State to terminate agreements that comprise the IMTS-Inbound product. The Postal Service has been making progress concerning initial communications about the termination of the agreements that comprise the IMTS-Inbound product. So far, management has sent notices of termination to 11 foreign postal operators.

Fourth, although all competitive international negotiated service agreement categories covered their attributable costs in FY 2020, the data submitted with this report indicates that 10 contracts did not cover their attributable costs. All ten of those contracts have expired.

### **3. Section 3633(a)(3)**

Section 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In Docket No. RM2017-3, the Commission established a new formula-based methodology to determine the appropriate share each year.<sup>45</sup> Under that approach, the appropriate share percentage applicable to FY 2020 is 8.8 percent. FY 2019 ACD (March 25, 2020) at 87. USPS-FY20-1, p. 3, shows total institutional costs of \$35.986 billion.<sup>46</sup> Applying the 8.8 percent to that figure yields a target contribution of

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<sup>44</sup> See Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2019 Annual Compliance Determination, Docket No. ACR 2019 (July 23, 2020), Question 2 Response.

<sup>45</sup> Order No. 4963 (Jan. 3, 2019).

<sup>46</sup> Total institutional costs are derived as the difference between total accrued costs and total attributable costs. Previously, the Commission specified the precise components of total attributable costs to be used for calculating this difference. FY 2017 ACD, at 10. As discussed further in the preface to USPS-FY20-1, the measure of total attributable costs used to generate the total institutional cost estimate indicated above reflects the components specified by the Commission in the FY 2017 ACD.

\$3.167 billion. USPS-FY20-1, p. 3, shows total competitive product attributable costs of \$19.427 billion (consisting of \$18.578 billion of volume variable costs, \$0.130 billion of product specific costs, \$0.658 billion of group inframarginal costs, and \$0.060 billion of group specific costs), and total competitive product revenue of \$30.522 billion.

Subtracting the former from the latter results in total competitive product contribution of \$11.095 billion. Because no competitive market tests were in effect in FY 2020, the overall net competitive contribution amount remains at \$11.095 billion, which is 30.8 percent of total institutional costs, an amount well in excess of the 8.8 percent requirement. Thus, in FY 2020, the Postal Service met the requirement of section 3633(a)(3).

**V. MARKET TESTS AND NONPOSTAL SERVICES**

**A. Market Dominant Market Tests**

In FY 2020, there were three market tests of experimental products offered under the provisions of section 3641 that were categorized as Market Dominant. Information for FY 2020 regarding two of these market tests is provided below:

**Table 19: Market Test Summary**

Market Test	Revenue (\$)	Cost (\$)	Volume
Plus One	Under Seal	Under Seal	Under Seal
Commercial PO Box Redirect Service	992	201,551	14,166
Extended Mail Forwarding <sup>[1]</sup>	632,209	503,638	24,830

[1] Volume in number of customers.

As explained in the data collection reports filed in Docket No. MT2019-1, information for the Plus One Market Test is filed under seal because of the small number of participants: if the data were disclosed publicly, then the participants, who compete with one another, would be able to obtain commercially sensitive market information about each other (*i.e.*, by a participant subtracting its own volumes from the total). Consequently, the information for the Plus One Market Test is provided under seal in the preface to USPS-FY20-NP27, although it may be noted here that the FY 2020 revenue for that test did exceed its cost.

The Postal Service does not have a method for estimating the quality of service of its experimental Market Dominant products. The Postal Service does not believe that the offering of these experimental Market Dominant products created an inappropriate competitive advantage for the Postal Service or any mailer.

## B. Competitive Market Tests

In FY 2020, there were no market tests of experimental products offered under the provisions of section 3641 that were categorized as competitive.

## C. Nonpostal Services

FY 2020 revenue, cost, and volume data for the two Market Dominant nonpostal service products are provided below.

**Table 20: Nonpostal Volume, Revenue and Cost by Product**

Product	Revenue (\$)	Expense (\$)	Net Income (\$)	Volume
Alliances with the Private Sector to Defray Costs [includes MoverSource nonpostal service]	21,275,682	2,041,908	19,233,774	N/A
Philatelic Sales <sup>[1]</sup>	8,785,123	7,524,255	1,260,868	395,488

[1] Revenue and expense are for fulfillment only

Comparable data for the seven competitive nonpostal services in effect and active in FY 2020 are provided in the preface to USPS-FY20-NP27.

## **VI. NONPUBLIC ANNEX**

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

A complete listing of the contents of the nonpublic annex appears at Attachment One. In general, the nonpublic annex contains the same types of materials that were included in the nonpublic annex in Docket No. ACR2019. Thus, its primary contents are:

- (1) versions of the CRA and Cost Segments and Components reports that provide disaggregated information for competitive products, and supporting materials underlying the CRA (such as the CRA “B” workpapers, the CRA model, and files relating to the various costing data systems);
- (2) the ICRA, supporting materials underlying the ICRA, and data for international customized agreements with customers;
- (3) billing determinants for domestic and international competitive products; and
- (4) information on individual domestic competitive product NSAs.

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

## **CONCLUSION**

The Postal Service respectfully submits the foregoing report for FY 2020.

**LIST OF APPENDED MATERIALS**

**PUBLIC FOLDERS**

USPS-FY20-1	FY 2020 Public Cost and Revenue Analysis (PCRA) Report
USPS-FY20-2	FY 2020 Public Cost Segments and Components Report
USPS-FY20-3	FY 2020 Discounts and Passthroughs of Workshare Items
USPS-FY20-4	FY 2020 Market Dominant Billing Determinants
USPS-FY20-5	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
USPS-FY20-6	General Classification of Accounts (Formerly Handbook F-8)
USPS-FY20-7	Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
USPS-FY20-8	Equipment and Facility Related Costs
USPS-FY20-9	FY 2020 ACR Roadmap Document
USPS-FY20-10	FY 2020 Special Cost Studies Workpapers - Letter Cost Models (First-Class and Marketing Mail)
USPS-FY20-11	FY 2020 Special Cost Studies Workpapers - Flat Cost Models (First-Class and Marketing Mail) & Periodicals Cost Model
USPS-FY20-12	Marketing Mail Parcel Mail Processing Cost Model
USPS-FY20-13	FY 2020 Marketing Mail and Periodicals Destination Entry Cost Models
USPS-FY20-14	Mail Characteristics Study (Public Portion)
USPS-FY20-15	Bound Printed Matter Mail Processing Cost Model and Media Mail – Library Mail Mail Processing Cost Model
USPS-FY20-16	Bound Printed Matter Transportation Cost Model and Bulk Parcel Return Service Cost Model

## FY 2020 ACR ATTACHMENT 1

USPS-FY20-17	2020 Annual Report and Comprehensive Statement of Postal Operations
USPS-FY20-18	FY 2020 ECR Mail Processing Unit Costs
USPS-FY20-19	FY 2020 Delivery Costs By Shape
USPS-FY20-20	FY 2020 Window Service Cost by Shape
USPS-FY20-21	Business Reply Mail Cost Model
USPS-FY20-22	FY 2020 Bound Printed Matter Mail Processing Costs
USPS-FY20-23	MODS Productivity Data
USPS-FY20-24	FY 2020 Non-Operation Specific Piggyback Factors (Public Portion)
USPS-FY20-25	FY 2020 Mail Processing Piggyback Factors (Operation Specific)
USPS-FY20-26	FY 2020 Mail Processing Costs by Shape (Public Portion)
USPS-FY20-27	FY 2020 Nonprofit Mail Cost Approximations
USPS-FY20-28	FY 2020 Special Cost Studies Workpapers – Special Services (Public Portion)
USPS-FY20-29	Annual Report on Service Performance for Market Dominant Products
USPS-FY20-30	FY 2020 Market Dominant NSA Materials
USPS-FY20-31	FY 2020 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
USPS-FY20-32	FY 2020 CRA “B” Workpapers (Public Version)
USPS-FY20-33	Consumer Access to Postal Services
USPS-FY20-34	City Carrier Cost System (CCCS) Documentation (Public Version)
USPS-FY20-35	Rural Carrier Cost System (RCCS) Documentation (Public Version)

## FY 2020 ACR ATTACHMENT 1

USPS-FY20-36	Transportation Cost Systems (TRACS) Documentation (Public Version)
USPS-FY20-37	In-Office Cost System (IOCS) Documentation (Public Version)
USPS-FY20-38	USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments
USPS-FY20-39	FY 2020 Competitive Products Fund Reporting Materials
USPS-FY20-40	2020 Rural Mail Count
USPS-FY20-41	International Market Dominant Billing Determinants
USPS-FY20-42	FY 2020 Revenue, Pieces, and Weight Report (Public Version)
USPS-FY20-43	FY 2020 Market Dominant Product Incremental Costs
USPS-FY20-44	Update to Periodicals Pricing Report
USPS-FY20-45	Flats Material Submitted Pursuant to Rule 3050.50

### **NONPUBLIC FOLDERS:**

USPS-FY20-NP1	FY 2020 Domestic Competitive Product Billing Determinants
USPS-FY20-NP2	FY 2020 International Cost and Revenue Analysis (ICRA) Report
USPS-FY20-NP3	FY 2020 International Cost Segments and Components Report
USPS-FY20-NP4	FY 2020 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
USPS-FY20-NP5	FY 2020 ICRA Overview/Technical Description
USPS-FY20-NP6	FY 2020 International Cost Segment Spreadsheets
USPS-FY20-NP7	Cost Segment 3 International Product Costs by Cost Pools (Volume Variable Cost Pools)

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USPS-FY20-NP8	FY 2020 International Billing Determinants
USPS-FY20-NP9	FY 2020 Miscellaneous International Data
USPS-FY20-NP10	FY 2020 Competitive Product Incremental and Group Specific Costs
USPS-FY20-NP11	FY 2020 Nonpublic Cost and Revenue Analysis (NPCRA) Report
USPS-FY20-NP12	FY 2020 Nonpublic Cost Segments and Components Report
USPS-FY20-NP13	FY 2020 CRA Model (Model Files, Cost Matrices, and Reports)
USPS-FY20-NP14	FY 2020 CRA "B" Workpapers (Nonpublic Version)
USPS-FY20-NP15	Parcel Select / Parcel Return Service (PRS) Mail Processing Cost Model
USPS-FY20-NP16	Parcel Select / Parcel Return Service (PRS) Transportation Cost Model
USPS-FY20-NP17	Parcel Select / Parcel Return Service (PRS) Cube-Weight Relationship Estimation
USPS-FY20-NP18	Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)
USPS-FY20-NP19	FY 2020 Non-Operation Specific Piggyback Factors (Nonpublic Portion)
USPS-FY20-NP20	FY 2020 Mail Processing Costs by Shape (Nonpublic Portion)
USPS-FY20-NP21	In-Office Cost System (IOCS) Documentation (Nonpublic Version)
USPS-FY20-NP22	City Carrier Cost System (CCCS) Documentation (Nonpublic Version)
USPS-FY20-NP23	Rural Carrier Cost System (RCCS) Documentation (Nonpublic Version)

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USPS-FY20-NP24	Transportation Cost Systems (TRACS) Documentation (Nonpublic Version)
USPS-FY20-NP25	Mail Characteristics Study (Nonpublic Portion)
USPS-FY20-NP26	FY 2020 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)
USPS-FY20-NP27	FY 2020 Domestic Competitive NSA & Nonpostals Materials
USPS-FY20-NP28	FY 2020 Revenue, Pieces, and Weight Report (Nonpublic Version)
USPS-FY20-NP29	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances) (Nonpublic Version)
USPS-FY20-NP30	Service Material (Nonpublic Portions)
USPS-FY20-NP31	Nonpublic Flats Material Submitted Pursuant to Rule 3050.50

## **ATTACHMENT 2**

### **APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS**

In accordance with 39 C.F.R. Part 3011, the United States Postal Service (Postal Service) hereby applies for nonpublic treatment of the thirty-one appended folders identified as non-public in Attachment One of the FY 2020 Annual Compliance Report (ACR) (collectively, the “Non-public Annex”). As is apparent from the Attachment One list, the majority of the folders in the Non-public Annex have a corresponding public folder.

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

The Postal Service hereby furnishes below the justification for this application as required by 39 C.F.R. § 3011.201(b).

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

The materials designated as non-public consist of information of a commercial nature as well as third party business information that, under good business practice, would not be disclosed publicly. Based on its longstanding and deep familiarity with the postal and communications businesses and markets generally, and its knowledge of many firms, including competitors, mailers, and suppliers, the Postal Service does not believe that any commercial enterprise would voluntarily publish information pertaining to the costs, volumes, revenues, and markets for its competitive products, as well as inbound market dominant products for which rates are negotiated with other postal operators. Rather, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).<sup>1</sup> Because the portions of materials filed non-publicly in this docket by the Postal Service fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Postal Regulatory Commission (Commission) to support its determination that these materials are exempt from public disclosure and grant the Postal Service's application for their non-public treatment.

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

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

**identification means the name, phone number, and email address of an individual;<sup>2</sup>**

The Postal Service has a proprietary interest in the information contained within the non-public materials. The Postal Service believes that the only third parties that have a proprietary interest in the materials submitted in connection with the FY 2020 ACR are identified in Appendix 1 to this Application. The Postal Service also hereby provides notice that it has already informed each third party listed in Appendix 1, in compliance with 39 C.F.R. § 3011.200(b), of the nature and scope of this filing and its right to address its confidentiality concerns directly with the Commission. In addition, because the Postal Service maintains that (i) some competitive negotiated service agreement (NSA) customers' identities are commercially sensitive and should not be publicly disclosed, and (ii) language and cultural barriers may make it difficult for those seeking access to nonpublic information to provide proper notice to the applicable third parties, Postal Service employees who will be responsible for providing notice to these specific third parties are also identified in Appendix 1.<sup>3</sup>

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<sup>2</sup> Section 3011.201(b)(2) further states the following:

(i) If the submitter has a proprietary interest in the information contained within the materials, identification of an individual designated by the submitter to accept actual notice of a motion related to the non-public materials or notice of the pendency of a subpoena or order requiring production of the materials.

(ii) If any person other than the submitter has proprietary interest in the information contained within the materials, identification of each person who is known to have a proprietary interest in the information. If such an identification is sensitive or impracticable, an explanation shall be provided along with the identification of an individual designated by the submitter to provide notice to each affected person.

(iii) If both the submitter and any person other than the submitter have a proprietary interest in the information contained within the non-public materials, identification in accordance with both paragraphs (b)(2)(i) and (ii) of this section shall be provided. The submitter may designate the same individual to fulfill the requirements of paragraphs (b)(2)(i) and (ii) of this section.

<sup>3</sup> The Postal Service acknowledges that Section 3011.201(b)(2) appears to contemplate only situations where a third party's identification is "sensitive" as permitting the designation of a Postal Service employee who shall act as an intermediary for notice purposes. To the extent that the Postal

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

The Postal Service, in conjunction with the United States Department of State, has also requested that the Universal Postal Union (UPU) International Bureau (IB) issue a Circular notice to all countries and designated operators informing each of its rights under 39 C.F.R. § 3011.204. This notification was published by the IB in Circular No. 216 on December 21, 2020. Specifically, the notice informs all countries and designated operators that the Postal Service will be regularly submitting certain business information to the Commission. UPU-designated foreign postal operators (FPOs) have a proprietary interest in information relating to their particular flows. The circular includes information on how third parties may address any confidentiality concerns with the Commission. In addition, contact information for all UPU Designated Operators is available at the following link, which is incorporated by reference into this Application: [http://pls.upu.int/pls/ap/addr\\_public.display\\_addr?p\\_language=AN](http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN).

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

The materials in the Non-public Annex fall into several categories. The first category is the Non-public CRA, and all of the background materials feeding into the

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Service's response might be construed as beyond the scope of this exception, the Postal Service respectfully requests a waiver that would allow it to designate a Postal Service employee as the contact person under these circumstances, in light of the practical considerations outlined herein. It is impractical to communicate with dozens of operators in multiple languages about this matter. Moreover, the volume of filings would overwhelm both the Postal Service and the applicable foreign postal operators with boilerplate notices.

Non-public CRA. These materials, in general, show cost information at the product level, including disaggregated information for Competitive products. These materials are found in folders USPS-FY20-NP10, USPS-FY20-NP11 - USPS-FY20-NP14, USPS-FY20-NP18 - USPS-FY20-NP25, and USPS-FY20-NP27. Descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY20-9. The roadmap indicates the corresponding public folder which contains information similar to that in each non-public folder, except that, in the public folder, the cost information for Competitive products is generally aggregated into one Competitive products row. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the non-public folder, and evaluate accordingly.

A second category consists of Special Cost Studies materials that provide cost information below the product level for Competitive products. These materials are found in folders USPS-FY20-NP15 - USPS-FY20-NP17, and USPS-FY20-NP26. Again, descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY20-9. The roadmap indicates the corresponding public folder which contains information similar to that in the nonpublic folder, except that, in the public folder, the cost information below the product level relates to Market Dominant, rather than Competitive, products. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A third category consists of the International CRA (ICRA) and the supporting documentation. These materials are found in folders USPS-FY20-NP2 - USPS-FY20-NP7, and USPS-FY20-NP9. Collectively, they present the inputs and the analyses

used to attribute and distribute costs to International products. In general, the ICRA follows the same basic methodologies used in the CRA – dividing accounting data into cost segments and components, distributing the attributable costs within segments to products, and summing the total attributable costs of a product across segments. Descriptions of the contents of the individual ICRA-related folders can be found in the roadmap document, USPS-FY20-9. There are no corresponding public folders.

A fourth category is the Competitive product billing determinants. These are found in USPS-FY20-NP1 for domestic Competitive products, and USPS-FY20-NP8 for International products. They are comparable in format to the Market Dominant billing determinants presented in USPS-FY20-4, but include the corresponding information for Competitive products. Again, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

In general, the premise of this application is that, for Competitive products and certain market dominant International products, disaggregated cost data (and detailed volume and revenue data, such as that provided in billing determinants) constitute commercially sensitive information and should not be publicly disclosed. The Postal Service is therefore placing all such information in the Non-public Annex, and filing it under seal. One exception to this approach appears in the CRA. The CRA (USPS-FY20-1) presents some disaggregated data for Competitive products, but those data are not disaggregated down to the product level, as they are in the Non-public CRA (USPS-FY20-NP11). Instead, in the CRA, the Postal Service has aggregated data for Competitive products into six product groups. Those groups are Total Priority Mail

Express, Total First Class Package Service, Total (non-Express) Priority, Total Ground, Total Competitive International, and Total Domestic Competitive Services. (The product rows in the Non-public CRA that are rolled up into each of the six Competitive product group rows in the CRA are shown in the table below.) At this level of disaggregation, the Postal Service has been unable to identify any of its major competitors that are publicly disclosing a potentially greater amount of disaggregated competitive cost data. The Postal Service maintains that the further disaggregation shown in the Non-public CRA should thus appropriately remain confidential. The Postal Service believes that the approach jointly embodied in its CRA and Non-public CRA prudently maximizes the amount of information available to the public, keeping such information as detailed as possible without prompting the competitive concerns outlined in the following section.

**FY2020 Public-Non-public Crosswalk Table**

<b>Category in Public Version CRA</b>	<b>Categories Rolled in from Non-public Version CRA</b>
Total Priority Mail Express	Domestic Priority Mail Express Domestic Priority Mail Express NSAs
Total First-Class Package Service	First-Class Package Service First-Class Package Service NSAs First-Class Package Service Fees
Total Priority Mail	Domestic Priority Mail Domestic Priority Mail NSAs Priority Mail Fees
Total Ground	Parcel Select Mail Parcel Select NSAs Parcel Return Service Mail Parcel Return Service NSAs USPS Retail Ground

Category in Public Version CRA	Categories Rolled in from Non-public Version CRA
Total Competitive International	Outbound International Expedited Services Outbound Priority Mail International Inbound Parcel Post (at UPU Rates) Inbound Letter Post Small Packets and Bulky Letters First-Class Package International Service International Priority Airmail (IPA) International Surface Airlift (ISAL) International Direct Sacks M-Bags Outbound International NSA Mail Inbound International NSA Mail International Mail Fees International Money Transfer Service International Ancillary Services
Total Domestic Competitive Services	Premium Forwarding Service Address Enhancement Services Greeting Cards, Gift Cards, and Stationery Shipping and Mailing Supplies Post Office Box Service Other Domestic Ancillary Services Other Domestic NSA Ancillary Services

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

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

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

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

### **Cost Information**

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

level of detail contained in the sub-reports and workpapers is highly refined and would enable competitors, and existing and potential customers with whom the Postal Service might negotiate particular contract rates, to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

### **Volume and Revenue Information**

Competitors could use the product-specific revenue, pieces, and weight information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical information about relevant product trends (*e.g.*, average revenue per piece, average weight per piece). Finally, as explained in greater detail below, disclosure would expose certain FPOs and other customers to the same competitive harms, to the extent that a category is associated with a single customer or a small group of customers. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the non-public materials filed by the Postal Service with its FY 2020 ACR.

### **Billing Determinants**

Billing determinants present a special category of volume and revenue information that would enable highly refined understanding of individual products aligned specifically to their individual price structures. In this regard, billing

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

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

### **Negotiated Service Agreements**

The utility of the sensitive information in billing determinants and other materials would be particularly enhanced with regard to NSA product information relating to

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

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

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

to be highly probable outcomes that would result from public disclosure of the non-public materials filed with the Postal Service's FY 2020 ACR .

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

Information derived from these documents is included in some of the materials filed in the Non-public Annex here. This information may include prices, product cost, contribution, or cost coverage. It also may concern customer mailing profiles, product volume, weight and revenue distribution, and product insured-value distribution. Competitors for the services covered by these agreements consist of domestic and international transportation and delivery firms and even FPOs, which could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. Competitors could also use the information to assess offers made by the Postal Service to customers for any possible comparative vulnerabilities and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Customers could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted materials filed by the Postal Service with its FY 2020 ACR.

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

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

### **International Product Information**

The Postal Service believes that the same vulnerabilities and harms discussed above that would result from the disclosure of the cost, volume, and billing determinant information would also generally apply to international product information designated as non-public. In particular, the harms resulting from disclosure of competitive information in the CRA would also result from disclosure of similar information, workpapers, and supporting documentation related to the ICRA. International mail products and business, however, exhibit operational and pricing distinctions not always shared by domestic counterparts. In particular, international products may be either inbound or outbound and, in some instances, are affected by bilateral and multilateral agreements among FPOs. In some cases, particular lines within the ICRA reflect agreements with a single FPO.

The public disclosure of this information would likely lead to limitations on the negotiating positions of both the Postal Service and the other FPO in similar agreements they might wish to negotiate with other FPOs. For instance, competitors could use the information to assess the rates charged by the Postal Service to FPOs for any possible comparative vulnerabilities and focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The same is true where a counterparty to an alliance is a private entity rather than a FPO. For example, disclosure of statistical, billing, and cost information about GXG could limit the ability of FedEx Express to negotiate effectively, and could allow competitors to analyze the traffic and obtain a competitive advantage against FedEx Express. Further, the outbound letter monopoly has been largely suspended by virtue of 39 C.F.R. § 320.8, thereby contributing to the

intensity of competition in this market. The more disaggregated nature of the product information in the international context and the relatively smaller numbers associated with them make the international data particularly vulnerable to analysis and use by competitors.

Moreover, the data also include specific information, such as country-specific letter post revenue, cost, volume, and weight data. This information is highly confidential in the business world. Indeed, FPOs (or other potential customers) could use this information to assess the relative weight of their mail flows to or from the United States, thereby giving them an advantage when negotiating the terms of their own agreements with the Postal Service.

The inbound volume and/or weight information included in the Non-public Annex also consists of sensitive commercial information. Disclosure of such information could be used by competitors of a FPO to assess the operators' underlying market size and its costs, and thereby develop a benchmark for the creation of a competitive alternative. The introduction of such alternatives would negatively impact the Postal Service's volume, market share, and revenue in these markets. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of information in the Non-public Annex.

### **Facility-Specific Performance Information**

Competitors could use the facility-specific performance information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. If the facility-specific performance data were available publicly, then competitors could target

locations with relatively weaker performance and could focus sales and marketing efforts in those locations to the Postal Service's detriment. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the non-public data filed by the Postal Service with its FY 2020 ACR .

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

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

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

**Hypothetical:** The CRA and ICRA provide data by product that indicate total revenues, attributable costs, volume variable costs, product specific costs, and per-piece attributable costs, contribution, and cost coverage (margin). These data are broken out by individual product and separated between products purchased through public schedules and those purchased through contract rates (NSAs). Hypothetically, this information is made public. Competitors use it to gain a refined understanding of the relative strengths and weaknesses of the Postal Service's product lines (domestic and international), the individual strengths and weaknesses of particular products, and the degree to which products are sold through public schedules, compared to contract pricing arrangements. Financial analysts for the competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information

provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have individual products for domestic express service (overnight), international express service, or package service comparable to Priority Mail determine that they have potential for competitive gain against the Postal Service in these areas and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

**Hypothetical:** ICRA revenue, volume, cost and contribution data are released to the public and become available to another operator. These data are highly relevant to commercial decision-making, and trends of recent data over the course of the past few fiscal years would provide valuable insights to FPOs, such as by revealing growth patterns in the Postal Service's volumes from certain markets. Such disclosure would give leverage to those counterparties. Thus, the disclosure of this information could undermine the negotiating position of the Postal Service or the United States in future negotiations, either in bilateral or multilateral settings. With these data in hand, the FPO or its government would be emboldened to harden its negotiating stance on any particular matter relating to remuneration systems for international mail, relative to its position if it was not in possession of such data. Likewise, as a negotiating tactic, armed with information about the Postal Service's costs, foreign posts or governments may insist on ensuring that rates the Postal Service pay for U.S. origin mail are set a level that is commensurate with the cost coverage level the Postal Service maintains

through its pricing, thereby severely hampering the Postal Service's interest to achieve the best possible settlement charges for delivery of mail abroad. This harms not only the Postal Service, but also customers who ultimately must pay postage rates that are designed to cover the terminal dues costs for delivery abroad.

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

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

**Hypothetical:** Cost information is disclosed to the public. Mailers or FPOs who seek to negotiate individual contract rates with the Postal Service gain a better understanding of the average or unit costs of particular products, as well as the relative and absolute strengths and weaknesses of particular product lines. This information enables the

mailers or foreign posts to negotiate contract rates with the Postal Service more effectively than in the absence of such information.

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

**Hypothetical:** The Cost Segments and Components reports of the CRA and ICRA are disclosed to the public. These reports group costs recorded in postal accounts according to various functional categories. The costs are distributed by postal product. The hypothetical disclosure provides competitors with a detailed understanding of the cost structures of each competitive postal product, the relative strengths and weaknesses of each product from cost perspectives, and the flexibilities available to the Postal Service within the legal framework applicable to postal prices. The refined understanding resulting from disclosure enables competitors to make decisions that would compensate for Postal Service strengths and capitalize on its weaknesses.

These decisions might involve design of competing firms' own products, alternative price structures, operational procedures, and marketing strategies. They could also involve formulation of negotiating approaches and strategies by existing and potential suppliers of goods and services used in producing postal products, and the formulation of more informed negotiating positions by mailers seeking to enter into favorable contract rate arrangements with the Postal Service. Such competitive advantages lead to diversion of business away from the Postal Service or reduction of potential contribution from individual contracts.

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

that better inform their decision-making. Such developments lead to an erosion of the Postal Service's competitive position and a loss of business or contribution.

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

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

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

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

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

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

**Hypothetical:** Disaggregated revenue, volume, cost, and weight information in the Non-public Annex is released to the public. A FPO's employee monitors the filing of this information and passes the information along to its international postal relations functions. The FPO assesses the Postal Service's average per-item or per-pound

revenue and cost for categories about which it is negotiating with the Postal Service, with particular focus on categories known to be included in bilaterals with other FPOs (e.g., letter post, air and surface parcels, and EMS). The FPO uses the average revenue and cost information as a justification for pricing demands in negotiations, refusing to accept a higher price without steeper concessions than the Postal Service might otherwise have been able to foreclose. The Postal Service's ability to negotiate the best value from the bargain suffers as a result. This hypothetical applies with equal force to customers other than FPOs, for NSA mail and non-NSA mail that can be made subject to an NSA (e.g., International Priority Airmail, which can be included in Global Plus 1 NSAs), and for alliances with suppliers such as FedEx Express with respect to GXG.

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

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

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

**Hypothetical:** A competitor of Canada Post Corporation (Canada Post), such as a competing international delivery service, obtains information contained in the Non-public Annex. The competitor analyzes the information to assess the average per-piece and per-pound revenue for Inbound International Letter-Post NSA Mail, Expedited Parcels and EMS which correspond to Canada Post's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers and freight companies to develop lower-cost alternatives and undermine Canada Post's market offerings.

**Harm: Competitors could use customer mailing profiles, product volume, weight, and revenue distributions, and product insured-value distribution information to assess vulnerabilities and implement sales and marketing strategies that could harm the Postal Service.**

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

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

commercial harm to the Postal Service, regardless of the information's present favorability.

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

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

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

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

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

**Harm: Public disclosure of billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, as well as related underlying financial analyses, would be used by competitors and customers to the detriment of the Postal Service.**

**Hypothetical:** A competing package delivery service obtains a copy of information contained in unredacted versions of financial work papers associated with particular agreements between the Postal Service and counterparties. It analyzes information contained in these work papers to determine what the Postal Service would have to charge its customers in order to comply with business or legal considerations, including meeting its minimum statutory obligations regarding cost coverage and contribution to institutional costs. It then sets its own rates for products similar to those that the Postal Service offers its customers below that threshold and markets its purported ability to

beat the Postal Service on price for domestic or international delivery services. Even by sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a similar fashion, freeze the Postal Service out of one or more relevant delivery markets. Even if the competing providers do not manage wholly to freeze out the Postal Service, they significantly cut into the revenue streams upon which the Postal Service relies to finance its provision of universal service.

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

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

**Hypothetical:** For negotiated Inbound Competitive Services, another postal operator sees a negotiated price between the Postal Service and the counterparty and concludes that there may be some additional profit margin between these rates and the statutory cost coverage that the Postal Service must produce in order for the agreement to be

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

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

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

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

**Hypothetical:** A competitor of the FPO, such as a competing international delivery service, obtains the non-public information. The competitor analyzes the information to assess the average country specific per-piece and per-pound revenue for bulky letters and small packets, which corresponds to the FPO's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers

and freight companies to develop lower-cost alternatives and undermine the FPO's market offerings.

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

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

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

The Commission's regulations provide that nonpublic materials shall lose nonpublic status ten years after the date of filing with the Commission, unless otherwise provided by the Commission. 39 C.F.R. § 3011.401(a). However, because the nonpublic materials are related to relationships with customers that often continue for decades, or at least beyond ten years, and include information that is relevant to Postal Service decisions that will be made more than ten years after the date of filing, the Postal Service intends to oppose requests for disclosure of these materials pursuant to 39 C.F.R. § 3011.401(b-c).

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

None.

***Conclusion***

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the Non-public Annex of the FY 2020 ACR.

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

Impacted Third Party Number	Contact Information
1	<p>Deutsche Post AG</p> <p>Birgit Bünnigmann, Head of Direct Entry +49 228 182 21513, <a href="mailto:birgit.buennigmann@deutschepost.de">birgit.buennigmann@deutschepost.de</a></p> <p>Ivo Wisser, Product Manager Direct Entry +49 228 182 24105, <a href="mailto:i.wisser@deutschepost.de">i.wisser@deutschepost.de</a></p>
2	<p>Royal Mail Group Limited</p> <p>Guy Fischer, International Commercial Director +44 7703104937 <a href="mailto:guy.fischer@parcelforce.co.uk">guy.fischer@parcelforce.co.uk</a></p> <p>Robert Woods, Regional Director +44 (0)7802 873279 <a href="mailto:robert.woods@royalmail.com">robert.woods@royalmail.com</a></p>
3	<p>BBVA Transfer Services, Inc</p> <p>Aurora Garza Hagan, CEO 281-765-1525 <a href="mailto:Aurora.Garza@btsincusa.com">Aurora.Garza@btsincusa.com</a></p>

Impacted Third Party Number	Contact Information
4	<p>Australian Postal Corporation</p> <p>Michael Cope, General Manager, International Services  +61 (0)2 93198750  <a href="mailto:Michael.Cope@auspost.com.au">Michael.Cope@auspost.com.au</a></p>
5	<p>Domestic Competitive NSA Customers</p> <p>Elizabeth A. Reed, Attorney, Pricing and Product Support  202-268-3179  <a href="mailto:elizabeth.a.reed@usps.gov">elizabeth.a.reed@usps.gov</a></p>
6	<p>International Competitive NSA Customers</p> <p>Christopher Meyerson, Attorney, Global Business  202-268-7820  <a href="mailto:christopher.c.meyerson@usps.gov">christopher.c.meyerson@usps.gov</a></p>
7	<p>FedEx Express</p> <p>James H. Ferguson, Corporate Vice President  901-434-8600  <a href="mailto:jhferguson1@fedex.com">jhferguson1@fedex.com</a></p>
8	<p>Canada Post Corporation</p> <p>Ewa Kowalski, Director International Mail Settlement and USPS Relations  1 (613) 734-6201  <a href="mailto:ewa.kowalski@canadapost.ca">ewa.kowalski@canadapost.ca</a></p> <p>Rajeev Venugopal, General Manager International Relations,  1 (613) 734-3000x55941  <a href="mailto:raj.venugopal@canadapost.ca">raj.venugopal@canadapost.ca</a></p>

Impacted Third Party Number	Contact Information
9	<p>Correos de Mexico</p> <p>Gerardo Jesús Gonzalez Arizmendi,  Dirección Corporativa de Planeación Estratégica  Subdirector de Asuntos Internacionales  <a href="mailto:gerardo.gonzalez@correosdemexico.gob.mx">gerardo.gonzalez@correosdemexico.gob.mx</a>  +52 (55) 5130-4109  Servicio Postal Mexicano (Correos de México)  Vicente García Torres # 235  04330 Coyoacan, CDMX  MEXICO</p>
10	<p>UPU Designated Operators</p> <p>Contact information for all UPU Designated Operators is available at:  <a href="http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN">http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN</a></p>
11	<p>EMS Operators</p> <p>List of EMS Operators is available at:  <a href="https://www.ems.post/en/global-network/ems-operators">https://www.ems.post/en/global-network/ems-operators</a>  Contact information for EMS Operators is available at:  <a href="http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN">http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN</a></p>
12	<p>China Postal Express &amp; Logistics Co., Ltd.</p> <p>Zhang Kun  Deputy Director, Division of International Business Management  Department of International Business  Parcel, Express and Logistics Business Unit  China Post Group Co., Ltd.  No 3A Financial Street  Xi Cheng District, Beijing 100808  China  <a href="mailto:zhangkun@chinapost.com.cn">zhangkun@chinapost.com.cn</a></p>

Impacted Third Party Number	Contact Information
13	<p>Parties to the Interconnect Remuneration Agreement USPS and Specified Postal Operators</p> <p>Mikhail Raykher, Attorney, Global Business  202-268-4277  <a href="mailto:Mikhail.Raykher@usps.gov">Mikhail.Raykher@usps.gov</a></p>
14	<p>Parties to the PRIME United States Postal Service Tracked Service Agreement</p> <p>Cinzia Neri, Head of PRIME  +32 (0)2 724 71 76  <a href="mailto:cinzia.neri@ipc.be">cinzia.neri@ipc.be</a></p>
15	<p>Parties to the PRIME Registered Service Agreement</p> <p>Richard Brown, Manager (A), International Policy &amp; Business Development  202-268-3988  <a href="mailto:Richard.K.Brown@usps.gov">Richard.K.Brown@usps.gov</a></p>
16	<p>Members of the Kahala Posts Group</p> <p>Vincent Mougey, Executive Director, KPG  +852 2528 6716  <a href="mailto:Vincent.J.Mougey@usps.gov">Vincent.J.Mougey@usps.gov</a></p>

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

<b>Folder</b>	<b>Impacted Third Parties Identified by Party Number in Appendix 1</b>
FY17-NP1	5, 6, 7
FY17-NP2	1, 2, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15
FY17-NP3	7, 8
FY17-NP4	7, 8
FY17-NP5	3, 7
FY17-NP6	7, 8
FY17-NP7	7, 8
FY17-NP8	7
FY17-NP9	1, 2, 4, 7, 8, 9, 10, 12
FY17-NP10	N/A
FY17-NP11	N/A
FY17-NP12	N/A
FY17-NP13	N/A
FY17-NP14	7, 8
FY17-NP15	N/A
FY17-NP16	N/A
FY17-NP17	N/A
FY17-NP18	N/A
FY17-NP19	N/A
FY17-NP20	N/A
FY17-NP21	N/A
FY17-NP22	8
FY17-NP23	8
FY17-NP24	5, 7, 8
FY17-NP25	N/A
FY17-NP26	N/A
FY17-NP27	5, 6, 7
FY17-NP28	1, 2, 4, 7, 8, 10, 11, 12
FY17-NP29	N/A
FY17-NP30	N/A
FY17-NP31	N/A