Mailers Hub News

August Summary *From the August 1, 15, and 29 issues*

July MTAC Focused on Network, Price Issues

On July 26-27, members of the Mailers Technical Advisory Committee assembled at USPS Headquarters for their mid-summer quarterly meeting. As is customary, the Postmaster General was the first speaker on Tuesday afternoon.

Speaking first about recent organizational changes, he noted that Kelly Abney, recently named Chief Logistics Officer and EVP, would be speaking after him. DeJoy believes "it's doable" to "get 20% out of network transportation" by better practices and efficiency. DeJoy asserted that "logistics was a mess" and that the USPS "failed for the last ten years to recognize the evolution in logistics." Separating it from processing operations allowed Chief Operations and Distribution Officer and EVP Isaac Cronkhite to better focus on work "within the four walls." "We have to run our plants better," DeJoy said, adding that "on the operational side we had really poor performance."

He mentioned he'd met with field operations executives to lay out "concepts" for network changes, deliberately avoiding specifics to forestall premature speculation. DeJoy did mention a model that had "63 places around the country that all the traffic should flow through" but that the final number of major facilities is "not going to be 63 for a lot of reasons," including capacity and "imbedded infrastructure that's valuable." The final number "could be 75" but in any case would be "less than the 320 that we sort through now." Mail would then go "to 150 places before it goes to where its delivered."

Part of the PMG's Plan for network changes involves the role of the current processing and distribution centers. In some cases, as processing machines are relocated, the available space would be used to consolidate delivery operations into sortation and delivery centers housing "four to five hundred carriers." DeJoy had stated previously that the current number of about 19,000 delivery units could be reduced to about 11,000 through these consolidations. Such facilities would be equipped with "high volume package processing equipment" that could handle up to 25,000 pieces per hour. With such a capability for "regional entry," "Who wouldn't want to move next to that kind of distribution system?" DeJoy asked rhetorically.

Electric Delivery Vehicle Developments

On July 20, the Postal Service announced it was changing the scope of the Supplemental Environmental Impact Statement for its Next Generation Delivery Vehicles "to further reflect network refinements, route optimization, and financial improvements that will support a shortened delivery vehicle procurement strategy interval."

According to the announcement, "at least 50% of newly ordered NGDVs in the current contract are expected to be battery electric vehicles." The USPS also plans to procure 34,500 commercial off-the-shelf vehicles to supplement the current purpose-built NGDV order, "including as many BEVs as are commercially available." The agency added that it "expects that at least 40% of the total quantity of NGDVs and COTS vehicles covered by the SEIS will be BEVs." The Postal Service stated that it was committing "to evaluate vehicle mix and purchase capability in shorter intervals as technology evolves and the organization's financial and operational pictures improve."

USPS Issues PQ III Results

On August 9, following the meeting of the Postal Service Board of Governors, the agency released its *Form 10-Q* for the third quarter of fiscal 2022 (April-June).

Increased mailing activity and higher prices provided better numbers than have been seen previously, and combined to generate positive income for the period. Operating revenue was up 1.39% for the quarter, and 1.62% for the year-to-date, compared to the same point in FY 2021; a 6.503% price increase had been implemented in August 2021. However, the agency's finances benefitted much more significantly from provisions in the *Postal Service Reform Act of 2022*, enacted April 6, that erased tens of billions in past and future obligations for retiree health care costs and, for accounting purposes, skewed the quarterly results accordingly. Deeper into the document, another chart detailed the Postal Service's financial results if the impact of the PSRA and monthly variations in the workers' compensation liability were excluded. Simply put, absent those factors, the results for the quarter would have been a $459 million loss.

Market-dominant mail volume continued to recover slowly from the levels reported during the depths of the pandemic, but competitive products moved the other way, likely reflecting both greater in-store shopping and increased competition from private shippers. As a result, though revenue was higher for the quarter, as noted above, volume was not, ending the quarter 0.66% lower and 0.82% lower, compared to last year, for the quarter and year-to-date, respectively.

The USPS repeated past explanations that its processing networks, designed to meet long-deleted service standards for First-Class Mail, remain "not completely aligned to today's mail and package mix" and so "continue to operate at less than full capacity." As for employee costs,

> "Compensation and benefits, our largest operating expense category, is significantly impacted by the terms in our collective bargaining agreements. ... Overall, our compensation and benefits expenses increased 1.6% and 1.8% for three and nine months ended June 30, 2022, respectively, compared to the same periods last year. These increases are primarily due to contractual wage increases, which include the inflationary impacts on related COLA, partially offset by a lower number of work hours."

In other words, higher compensation costs to which the USPS committed itself in labor negotiations more than offset the increases in revenue generated from ratepayers. How this pattern is expected to yield a better financial condition for the agency was not explained, though it might give insight into the PMG's forecast for semi-annual price increases well into the future.

USPS Announces Peak Season Prices for Competitive Products

As expected, the Postal Service will be increasing prices for some competitive products over the coming holiday season. Following the approval by the Governors of the USPS at their meeting on August 9, the prices were announced by the agency on August 10. The temporary price increase will take effect at 12am CT on October 2 and expire at 12am CT on January 22, 2023.

Given that the USPS will be implementing higher rates for market-dominant products on January 22, it's likely that, if higher rates for competitive products are announced later this year, those would take effect that day as well. The full USPS filing, including complete rate charts for the temporary prices, can be found on the PRC website at https://www.prc.gov/dockets/document/122448.

June Financials: Aside from PSRA Adjustment, Lower Volume, Persistent Costs

Again in June, the Postal Service's financials reflected the impact of the *Postal Service Reform Act of 2022*, enacted early in April, that erased tens of billions in health care costs. Other than that, revenue and volume figures were generally lower; Market-Dominant mail volume was down as both First-Class Mail and Marketing Mail declined, but revenue was up thanks to higher prices. Meanwhile, competitive product volume fell again, continuing a downward trend. Transportation costs grew, but the workers' comp liability moved favorably by $612 million. After April's one-time PSRA adjustment, June revenue was $6.232 billion, and $59.887 billion for FY 2022 to date, with net income of $111 million for the month on total income of $57.522 billion YTD (most of the "income" is from the PSRA adjustment).

Total market-dominant mail volume for the month was down 3.4% from June 2021, led by a 2.5% drop in First-Class Mail and a 4.2% decrease in Marketing Mail. Meanwhile, competitive products volume fell – again – down 1.5% for the month and 6.6% for the YTD. Total USPS volume was 9.787 billion pieces, down 3.3% from last June, while YTD volume, 97.089 billion pieces, was 0.8% lower.

Though market-dominant revenue should be higher because of last August's 6.503% price increase, revenue from the market-dominant classes, compared to SPLY, actually was up just 2.0% for the month and 1.6% YTD, suggesting the sharp price increase may have dampened mailing activity. Meanwhile competitive products revenue was up only 0.9% in June and down 2.5% for the YTD, both compared to SPLY. Total USPS revenue for the month ($6.194 billion) with its components most higher as well.

Details Emerging About Delivery Unit Consolidations

Documents provided by the Postal Service to its labor groups detail the initial moves to implement the network redesign contained in the Postmaster General's 10-year Plan. Generally, the redesign would impact the mail processing, transportation, and delivery infrastructure; similarly sweeping changes are not anticipated to retail facilities.

The focus of the documents is the consolidation in specific areas of delivery functions from post offices into newly established "sort and delivery centers." As envisioned, the SDCs would be located in existing facilities where space was vacated when mail processing operations were relocated.

To begin, the USPS identifies facilities with excess empty space into which at least two existing delivery units and twenty routes could be consolidated. At the same time, the agency identifies post offices with city and rural routes within thirty minutes' travel time (one way) and gauges how much space at the SDC would be needed to hold their existing delivery operation. Candidate facilities are also evaluated for their ability to be expanded as needed, and for the availability of parking space for both employee and delivery vehicles. After completing its analyses, the facilities are ranked in order of greatest opportunity if activated as SDCs.

The ten facilities identified as the top candidates were the Mid-Hudson (NY) P&DC, Utica (NY) P&DF, Southeastern

(PA) P&DC, Kalamazoo (MI) P&DC, Gainesville (FL) P&DF, Athens (GA) P&DC, Columbus (GA) PO, Topeka (KS) Northpark Station, New Castle (PA) P&DF, and Bryan (TX) P&DC.

According to the information provided by the Postal Service, the ten candidate SDCs would consolidate 153 existing delivery units with 1,233 city delivery routes and 771 rural delivery routes. Because of the added travel time, the USPS estimated that from 62 to 124 more city routes, and 39-78 more rural routes would be needed to serve the same number of delivery stops.

As SDC facilities proliferate, observers are concerned about the concurrent increase in vehicle mileage and fuel costs, as well as the cost of additional carriers and vehicles for the new routes that will be required. Although the PMG dismisses doubts and questions as "noise," it would still be appropriate to explain to ratepayers how the overall SDC concept really will reduce costs.

July Financials: Like a Broken Record Lower Volume, Persistent Costs

The Postal Service's July financials continued to reflect the impact of the *Postal Service Reform Act of 2022*, enacted early in April, that erased tens of billions in health care costs. Other than that, volume figures were generally lower; Market-Dominant mail volume was down as both First-Class Mail and Marketing Mail declined, but revenue was up thanks to higher prices. Meanwhile, competitive product volume paused its downward trend. Transportation costs grew, and the workers' comp liability moved adversely by $384 million. After April's one-time PSRA adjustment, July revenue was $6.094 billion, and $65.614 billion for FY 2022 to date, with a net loss of $1.075 billion for the month on total income of $56.447 billion YTD (mostly the "income" from the PSRA adjustment).

Total market-dominant mail volume for the month was down 5.8% from July 2021, led by a 5.0% drop in First-Class Mail and a 5.9% decrease in Marketing Mail. Meanwhile, competitive products volume was up 2.1% for the month but still down 5.8% for the YTD. Total USPS volume was 9.562 billion pieces, down 5.5% from last July, while YTD volume, 100.651 billion pieces, was 1.3% lower.

Though market-dominant revenue should be higher because of last August's 6.503% price increase, revenue from the market-dominant classes, compared to SPLY, actually was up just 3.8% for the month and 5.9% YTD, suggesting the sharp price increase may have dampened mailing activity. Meanwhile competitive products revenue was up 3.2% in July and down 2.0% for the YTD, both compared to SPLY. Total USPS revenue for the month was $6.094 billion, with its components mostly higher as well.