

# Mailers Hub News

## April Summary *From the April 10 and 24 issues*

### **USPS Files Price Increase for Market Dominant Products**

Late on Monday, April 11, the Postal Service submitted a filing with the Postal Regulatory Commission proposing a price increase on market dominant products. The filing had been approved by the Governors of the USPS at their meeting earlier in the week. Postmaster General Louis DeJoy had promised aggressive price increases when he came aboard in mid-2020; if approved by the PRC, the increases he will have imposed over a 23-month period exceed 22.8%.

The size of the additional “density” and “retirement” adders were calculated by the USPS last year and confirmed by the PRC in an April 3 order.

In its filing, the Postal Service detailed the factors contributing to the proposed increase:

- Accumulated 6-month CPI-Based Authority: 3.406%
- Unused Authority from Previous Filings:

Class	Unused Authority
First-Class	0.001%
Marketing	0.003%
Periodicals	0.744%
Package Services	0.003%
Special Services	0.064%

- Density Rate Authority: 0.936%
- Retirement-Based Rate Authority: 1.036%
- Rate Authority for Non-Compensatory Classes: 2%

These factors established the total USPS rate authority:

Class	CPI	Bank	Density	Retire-ment	Noncom-pensatory	Total
First-Class	3.406%	0.001%	0.936%	1.036%	--	5.379%
Marketing	3.406%	0.003%	0.936%	1.036%	--	5.381%
Periodicals	3.406%	0.744%	0.936%	1.036%	2.000%	8.122%
Package Svcs	3.406%	0.003%	0.936%	1.036%	--	5.381%
Special Svcs	3.406%	0.064%	0.936%	1.036%	--	5.442%

Of that total, the Postal Service chose to use all but a tiny percentage, which it will “bank”:

Class	Average Increase (%)	Unused Authority (%)
First-Class	5.378	0.001
Marketing	5.381	0.000
Periodicals	8.122	0.000
Package Services	5.379	0.002
Special Services	5.429	0.013

The total price increases recently imposed on ratepayers is far from encouraging the increased use of mail:

Class	Aug '21	Jul '22	Jan '23	Apr '23	Total
First-Class	6.814	6.506	4.200	<b>5.378</b>	<b>22.898</b>
Marketing	6.815	6.500	4.203	<b>5.381</b>	<b>22.899</b>
Periodicals	8.806	8.540	4.200	<b>8.122</b>	<b>29.668</b>
Package Svcs	8.806	8.511	4.197	<b>5.379</b>	<b>26.893</b>
Special Services	6.808	6.442	4.198	<b>5.429</b>	<b>22.877</b>

Barring any delays should the PRC find calculation errors in the USPS filing, the Postal Service will implement the new prices on July 9, 2023. If competitive product prices are increased, that will occur separately.

### **PRC Releases FY 2022 Annual Compliance Determination**

On March 29, the Postal Regulatory Commission issued its *Annual Compliance Determination* for Fiscal Year 2022 (October 1, 2021, through September 30, 2022).

(By statute, the Postal Service must publish an *Annual Compliance Report* within ninety days of the end of each fiscal year, reporting on its performance on a range of financial, service, and customer satisfaction topics; the *ACR*

was published on December 29, 2022. In turn, by ninety days later, the PRC is required to review that report and issues its own conclusions in the *ACD*.)

Though this timeline allows for the collection of data and composition of the related text, the consequence is that any recommendations made by the commission about actions the USPS must or should take are not provided until halfway through the next fiscal year, likely too late for any meaningful actions to be planned and implemented until a year later.

The 223-page report offers a topic-by-topic review of the Postal Service's *ACR* and the PRC's corresponding analysis, conclusions, and directives or recommendations. The opening section of the *ACD* also included a review of the PRC's recent rulemaking to define the "analytical principles" that would apply to how the forgiveness of USPS "pre-funding" obligations (by last April's *Postal Service Reform Act*) would be treated for accounting purposes. (The PRC declined to adopt a proposal by a group of industry associations, resulting in the calculations yielding the Postal Service about \$400 million in additional pricing authority.)

Many of the cost coverage and service failure issues are not new and remain chronically unremedied. It's likely the pattern will continue next year but that remains to be seen.

### ***OIG Evaluates USPS Trailer Utilization***

Ever since beginning his tenure, PMG Louis DeJoy has complained that the trucks hauling mail aren't full, i.e., that transportation is inefficient and moving too much air. Looking at this situation more objectively, the Postal Service's Office of Inspector General audited USPS vehicle capacity usage and published its findings in a March 30 report, *Assessment of US Postal Service Trailer Utilization*.

As background, the OIG noted:

"Trailer utilization measures how many containers of mail are on a trailer compared with the number of containers that could be loaded on to a trailer. Maximizing trailer utilization means ensuring that trailers are as close to capacity as is practicable for each trip. The Postal Service pays HCRs for routes taken, regardless of how much mail or equipment is being moved. ...

"In FY 2022, Surface Visibility calculated trailer utilization based on container square feet and trailer length. To ensure an accurate trailer utilization calculation, users must choose the correct trailer length and also correctly perform load scans. When a container is loaded on to a trailer, a Postal Service employee scans a label with a barcode that is attached to the container. This scan is called a load scan. These scans let the Postal Service know how many containers are loaded on a trailer. Surface Visibility does not calculate utilization based on stacked containers or cubic feet."

The OIG offered two recommendations:

- "... coordinate with transportation management at sites with trailer utilization below 40% to identify underutilized trips for the Trip Reduction of Underutilized Transportation team to review and approve for elimination.
- "... develop a plan to increase load scan scores to meet or exceed the National Performance Assessment scanning goal at each facility nationwide."

In turn, the OIG reported the Postal Service's response:

"Management agreed with the finding; agreed with recommendation 2; but disagreed with recommendation 1. ...

"Regarding recommendation 1, management stated that they already have a process in place that addresses underutilized trips. Specifically, management stated that in FY 2021, a dashboard was created to identify trips that were underutilized; headquarters provides a monthly file to the field showing all trips that have an average utilization under 35% for the prior 60 days; and each division is supposed to identify underutilized transportation and coordinate with headquarters to determine action necessary to improve utilization performance. Furthermore, management noted that headquarters and the field are completing a 'Ground Initiative' to consolidate and streamline trips.

"Regarding recommendation 2, management stated that Logistics will partner with Processing to review opportunities for load scans. The target implementation date is April 30, 2023."

The findings raise other questions: Why is employee compliance with policies and procedures still an issue? Is training inadequate, or supervision ineffective? If trailers that aren't full carry containers that aren't full, should smaller containers be used that can be stacked? Should smaller trucks be used instead of trailers? If a significant number of partially-filled containers are being moved on half-full trailers, should containers and vehicles be sized to expected loads?

### ***PRC Opens Inquiry Docket About S&DCs***

On April 20, nearly 25 months after release of the Postmaster General's 10-Year Plan, the Postal Regulatory Commission opened an inquiry docket (PI2023-4) to solicit public input – not on the whole plan, but on that part related to sorting and delivery centers. As the commission stated in its notice:

"The Commission discussed potential impacts to flats operations and costs due to the new S&DCs in its Flats Operations Study Report, largely based on information provided to stakeholders and Postal employees. However, the Commission notes that

stakeholders have expressed concerns regarding a lack of a forum to explore the impacts of these proposed changes. ... The instant docket is not intended as an advisory opinion process on the Postal Service Strategic Plan. However, the Commission finds it beneficial to the interest of transparency to provide a forum to learn more about these strategic plan initiatives that may have a significant impact on the postal community. Accordingly, the Commission opens this Public Inquiry to provide a forum to seek additional information about the planned S&DCs, as well as other planned initiatives associated with the Postal Service Strategic Plan."

The PRC explained how information will be collected:

"The Commission anticipates that it will issue information requests to gather information about the proposed changes to the network and the impact of recent changes to the postal network. Interested parties also may propose questions by filing motions seeking information requests following the procedures listed at 39 CFR part 3010.170(e)."

Even though the Plan covers every aspect of the Postal Service – finances, operations, employees, etc. – the PRC has never sought to expose it to regulatory scrutiny, and has actually ruled against doing so already.

On October 7, 2021, twenty states and the District of Columbia filed a complaint with the PRC "alleging that the Postal Service's failure to submit its 10-Year Strategic Plan to the Commission for an advisory opinion violates 39 USC 3661(b)." On October 27, 2021, the Postal Service moved to dismiss the complaint and, on November 10, 2021, the complainants filed an opposition in response. (The cited statutory passage, 39 USC 3661(b) states:

"When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change.")

In the course of that proceeding, the USPS downplayed the scope of the Plan and claimed it would offer opportunities for public input, rejecting the complainants' view that the Plan is "a comprehensive and holistic effort to transform" the USPS that can only be evaluated by reviewing it "as a whole." Ultimately, the PRC interpreted statute in the Postal Service's favor and dismissed the states' complaint.

For obvious reasons, the Postal Service doesn't want a public examination of the 10-Year Plan "as a whole." Aside from its usual resistance to external scrutiny, parts of the Plan, notably the nodes in the revised processing network, haven't yet been fully developed.

On the other side of the issue, the mailing industry and ratepayers – who will underwrite the Plan's costs and see their service impacted by its results – have a legitimate interest in knowing what's going on in the agency on which they and their businesses are critically dependent.

For its part, the PRC has been notably reticent to assert its regulatory role, preferring to react to USPS filings rather than to initiate action on its own. Forgoing any interest in reviewing The Plan "as a whole" effectively allowed the Postal Service to decide on what matters it wanted the PRC's review.

Regardless, all parties know that the commission's statutory authority in the issuance of advisory opinions is limited, and that enforceable actions following a public inquiry are essentially nonexistent. So, odds are that, after the public inquiry docket is closed, implementation of the S&DCs will continue as the USPS intends, like the inquiry docket never happened.

#### **PRC Issues Report on Return to 2012 Service Standards**

A favorite wish of the postal unions is the restoration of 2012 service standards, which included overnight service for First-Class Mail within an SCF service area and 2- or 3-day service for most other areas. (Though they claim their interest in service motivates the desire, the real reason may be the levels of craft staffing that would be restored as well.) Naturally, if the unions advocate an idea, there are those in Congress who will follow suit, as was the case when the House was considering the 2022 *Financial Services and General Government Appropriations Bill*.

The report of the House Appropriations Committee (117-79, issued July 1, 2021) included under the section about the Postal Regulatory Commission

"First-Class Service Standards.—The Committee is concerned about further changes to the service standards for market-dominant mail products, particularly the Postal Service's recent proposal to extend first-class service standards to as long as five days. The Committee believes this change would further erode public confidence in the USPS. The Committee directs the PRC to analyze the feasibility of restoring service standards for market-dominant products that were in effect on July 1, 2012, including an examination of the resources and structural and operational changes needed, and the impacts on market growth and revenue. If service standards are decreased from their January 2021 levels, the PRC shall also conduct a similar analysis of the costs and benefits of restoring USPS service and performance levels to their January 1, 2021, levels. The PRC shall report to the Committee on its findings within 1 year of enactment of this Act."

In response to the committee's instructions, the PRC retained consultant J.P. Klingenberg to do the necessary research and produce the report. The appropriations bill was signed into law on March 15, 2022, meaning the PRC report was due last month.

The consultant submitted his 96-page report to the PRC on March 30 and, on April 7, the commission sent it to the leaders of the Senate and House appropriations committees.

The report explained that the 2012 decision to change service standards was motivated by the Postal Service's claim that "it could no longer operate a network designed to achieve overnight delivery of Single-Piece First-Class Mail" and that "it needed to redesign its operations to achieve higher cost efficiencies considering declining mail volumes." At the time, the USPS estimated "it would achieve \$1.6 billion in savings from the combination of the mail processing facility consolidations and operating window changes."

The report's conclusion was relatively brief and without a clear answer on the matter of "feasibility":

"From 2012 to FY 2022 the Postal Service downgraded the days to delivery service standard for over 80% of First-Class Mail, as measured by both geographic locations (O/D pairs) and volume. The Postal Service made significant changes to when and where mail processing operations occur, consolidating its network by 60%. However, the Postal Service still operates retail or delivery activities at 228 of the 249 facilities, so only 21 locations would have to be completely replaced. Restoring the service standards in effect on July 1, 2012, would require significant capital expenditures because it would require moving letter mail processing equipment and staffing 249 re-assigned facilities. Because the Postal Service achieved higher levels of efficiency and service performance results in FY 2012 than it has achieved since, it is not clear whether a restoration of the service standards in place in 2012 would cause annual expenses for operating the network to increase or decrease. Similar to the Postal Service's network redesigns of the past decade, the cost of restoring service to FY 2021 levels would depend on the Postal Service's ability to successfully implement change."

Essentially, the report found that, while it may be *feasible* to restore the 2012 service standards, doing so would incur significant cost for facilities and employees, yet offer no guarantee of improved service performance or operational efficiency. Therefore, what might be theoretically possible isn't necessarily also a good course of action.

For its part, in the cover letter transmitting the report, the PRC also avoided taking a clear position.

"Insufficient data on the causes of changes in postal operations and the mail market, however, makes it difficult to draw definitive policy conclusions from Mr. Klingenberg's research in a responsible fashion. ... A complete understanding of the feasibility of reversion to old service standards for a broader swath of mail would require using sufficient analytical tools and data to identify causal links (in addition to correlation) between service standard changes and variations in service performance, costs, efficiency, and demand for mail. There is at present insufficient data to determine causation for the 2012 - 2021 service standard changes and correlated developments in postal operations and the mail market. ..."

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