Mailers Hub News

April 2024 Summary *From the April 8 and 22 issues*

Data and Insights: PRC Issues FY2023 Annual Compliance Determination

It's an annual exercise required by the 2006 *Postal Accountability and Enhancement Act*. Within 90 days after the end of a fiscal year (i.e., by December 29), the Postal Service must submit to the Postal Regulatory Commission a detailed report (the *Annual Compliance Report*) that

> "analyzes costs, revenues, rates, and quality of service, using such methodologies as the Commission shall by regulation prescribe, and in sufficient detail to demonstrate that all products during such year complied with all applicable requirements…."

The USPS filed its 166-page *ACR* on December 29, 2023. The law requires that, in turn, within 90 days of receiving the *ACR*, the PRC must

> "make a written determination as to—
> (1) whether any rates or fees in effect during such year (for products individually or collectively) were not in compliance with applicable provisions of this chapter (or regulations promulgated thereunder); or
> (2) whether any service standards in effect during such year were not met."

The PRC's report is the *Annual Compliance Determination*; the commission issued its 251-page *ACD* on March 28.

The first chapter of the report is devoted to the legal and procedural background for the *ACD* and the organization of its contents. As should be expected, the next two chapters focus on revenue, cost, cost coverage, worksharing, and other rate-related matters relevant to the market-dominant classes. The fourth chapter examines competitive products, negotiated service agreements, the "appropriate share" requirement, pilot programs, and interagency agreements. Chapter IV, the largest, is devoted to service performance, customer access, and customer satisfaction. At the end is a 20-page appendix listing the "Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports."

Fortunately for readers who prefer to read the Cliffs Notes version of a book, the commission provided a summary of the ACD's "notable findings and determinations":

- **Market Dominant Rate and Fee Compliance.** In Chapter II, the Commission determines that all rates implemented in FY 2023 complied with all rate authority provisions. The Commission notes that all workshare discounts in effect in FY 2023 were in compliance at the time they were introduced … .
- **Market Dominant Non-Compensatory Classes and Products.** In Chapter III, the Commission finds that the Postal Service lost $1.34 billion in FY 2023 from non-compensatory classes and products.
- **Competitive Products.** In Chapter IV, the Commission finds that revenues for four Competitive products with rates of general applicability did not cover attributable costs and, therefore, did not comply with [statute].
- **Service Performance.** In Chapter V, the Commission finds that 15 out of 27 Market Dominant products/categories failed to meet their service performance targets and directs the Postal Service to take corrective action to improve performance.

At the outset of the chapter discussing service performance, the commission observed

> "The service performance issues identified in the in-depth analysis in this Chapter strongly suggest that service performance failures are ongoing and systemic problems rather than isolated events causing accumulated failures."

The commission also noted that what the USPS claims and what customers report often differs:

> "The Commission is concerned that the operational and sample data used for the internal service performance measurement system may not match the performance that mailers may be experiencing and/or fully capture the current nationwide service issues."

In all, the PRC devoted 90 pages of its *ACD* to the detailed review and analysis of USPS service performance, providing a far more objective – and mush less flattering – perspective that what is typically forthcoming from the Postal Service.

OIG Audit Cites Extensive Problems at Richmond RPDC

As Postmaster General Louis DeJoy presses on with his Plan to transform the Postal Service's collection, processing, transportation, and delivery networks, an audit of the first regional processing and distribution center opened under his Plan found a wide variety of problems. The OIG summarized the transition of operations into the new RPDC:

> "In July 2023, the Postal Service completed the consolidation of operations from package sortation annexes (PSA), P&DCs, and terminal handling services in the Richmond metro and Norfolk, VA, areas to the Richmond RP&DC. Then, in October 2023, the Postal Service executed the last of the planned operational moves when it consolidated mail processing operations from the Rocky Mount, NC, Processing and Distribution Facility (P&DF) into the Richmond RP&DC.

The audit, conducted by the Postal Service's Office of Inspector General from July 29 to December 1 last year, had a simple objective: "to assess the operational impacts related to the launch of the RP&DC and identify successes, lessons learned, and opportunities."

The audit report, *Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA*, released March 28, presented a series of findings, including:

* The Postal Service did not complete several major activities in the implementation plan before launch;
* Local management didn't take ownership of changes and were deficient in operational execution;
* Dock staging lanes were congested and hindered mail flow from processing machines;
* Staffing was not fully aligned to the new operating plan;
* Employee absenteeism increased after the launch;
* Management did not train all employees on standard work instructions for new processes;
* New processing equipment was not performing as expected in the first few weeks;
* Transportation schedules developed by the implementation team did not account for all local needs and staffing levels of the Richmond Region and required adjustments after launch;
* The Postal Service did not take actions to address known weaknesses before converting the Richmond P&DC into an RP&DC. OIG audits issued in 2021 and 2022 identified significant performance issues at the Richmond facility. These issues included inadequate management and employee staffing, low employee availability, high turnover, low service performance, missed clearance times, overcrowding, and low productivity.

In sum, the report paints a picture of a facility that was not doing particularly well already, being subjected to a poorly organized effort to remake its mission and operations, and not doing any better after.

Moreover, many observers might suspect that the deficiencies in Richmond – management turnover, ineffective supervision, poor work performance, inadequate adherence to operating plans, and a lack of training – are not unique to that facility, and that future RPDC implementations might not go any more smoothly if such shortcomings are not identified and remedied in advance.

Whether the PMG's pressure to *get it done*, and his usual disinterest in feedback that might not agree with his perspective, were contributing factors is not known, but the apparent lack of deliberate and methodical action – and the lack of communication with local managers – would support such a supposition.

PRC Initiates Review of Ratemaking Process

On April 5, the Postal Regulatory Commission issued an *Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes For Market Dominant Products* "to determine if the ratemaking system is achieving the objectives appearing in 39 USC § 3622(b), taking into account the factors in 39 USC § 3622(c)." In simple terms, the PRC is opening a docket to review the ratesetting process for market-dominant products, specifically to consider whether it is meeting the requirement detailed in the 2006 postal reform law (the *Postal Accountability and Enhancement Act*).

The law required the PRC to review the process ten years after enactment "and as appropriate thereafter." The first review started in 2016 and took years to complete, resulting in a November 2020 final rule that established the three "adders" that give the Postal Service additional pricing authority ("density," linked to mail volume; "retirement," to generate revenue to make payments toward retirement system prefunding; and "non-compensatory," to provide additional pricing authority for classes of mail not covering their costs).

Under Postmaster General Louis DeJoy, the Postal Service has sought maximum price increases every six months which, in the view of many mailers and ratepayers, has driven out mail volume, in turn increasing the "density" adder and enabling even greater price hikes.

The seemingly perverse operation of the "density" adder – that a pricing factor that drives out volume should enable even higher prices – has led to calls from the mailing industry that the PRC should reconsider whether such a negative cycle was what the commission envisioned in 2020.

After its 2020 rulemaking, the commission planned future reviews every five years (a "a review period that would be both short enough to safeguard against any potential unintended consequences and long enough to allow the effects of the changes to be observed"). Beginning a year early what was expected to be started in late 2025 may indicate the commission has come to share the industry's concerns that the "adders" are having unintended consequences.

> "These stakeholder concerns, as well as the deteriorating financial condition accompanied with overall volume declines, have prompted the Commission to initiate this proceeding to review the ratemaking system to determine if the ratemaking system is achieving the objectives appearing in [statute]."

In its notice, the PRC invited "interested persons … to comment as generally or specifically as they deem appropriate," but suggested responses to two questions:

(1) Is the ratemaking system achieving the statutory objectives, while taking into account the statutory factors? Why or why not?

(2) If the ratemaking system is not achieving the statutory objectives, while taking into account the statutory factors, should modifications be made or an alternative system be adopted to achieve the statutory objectives?
  a. Why or why not?
  b. If so, what modifications to the ratemaking system should be made or what alternative system should be adopted?

Comments are due July 9, and reply comments by August 14.

USPS Files for Higher Prices to be Effective July 14

On the afternoon of Tuesday, April 9, the Postal Service submitted a filing with the Postal Regulatory Commission proposing a price increase on market dominant products. Since taking office in mid-2020, Postmaster General Louis DeJoy has pursued aggressive semi-annual price increases; including the recent proposal, those increases exceed 32.6%.

The size of the additional "density" and "retirement" adders were calculated by the USPS last year and confirmed by the PRC in the *Annual Compliance Determination*.

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

- Accumulated 6-month CPI-Based Authority: 1.622%
- Unused Authority from Previous Filings:

Class	Unused Authority
First-Class	0.001%
Marketing	0.001%
Periodicals	0.000%
Package Services	0.001%
Special Services	0.001%

- Density Rate Authority: 4.312%
- Retirement-Based Rate Authority: 1.820%
- 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	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Marketing	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Periodicals	1.622%	0.000%	4.312%	1.820%	2.000	9.754%
Package Svcs	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Special Svcs	1.622%	0.001%	4.312%	1.820%	n/a	7.755%

Of that total, the Postal Service chose to use all available authority, leaving nothing in the "bank" for the next filing:

Class	Average Increase (%)	Unused Authority (%)
First-Class	7.755%	0.000
Marketing	7.755%	0.000
Periodicals	9.754%	0.000
Package Services	7.755%	0.000
Special Services	7.755%	0.000

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

Class	Aug '21	Jul '22	Jan '23	Apr '23	Jan 24	Jul 24	Total
First-Class	6.814	6.506	4.200	5.378	1.970	7.755	**32.623**
Marketing	6.815	6.500	4.203	5.381	1.962	7.755	**32.616**
Periodicals	8.806	8.540	4.200	8.122	1.959	9.754	**41.381**
Pkg Svcs	8.806	8.511	4.197	5.379	1.961	7.755	**36.609**
Special Svcs	6.808	6.442	4.198	5.429	2.169	7.755	**32.801**

The Postal Service's filing offered details of how the class level increases were being distributed among component rate categories and the reasons for some pricing decisions.

First-Class Mail.

Product	Average Increase (%)
Single-piece (overall)	7.674
Stamped	7.400
Metered	7.800
Presorted (letters/cards)	7.629
Automation Mixed AADC	8.900
Automation AADC	8.400

Automation 5-digit	7.500
Flats (overall)	9.684
Outbound Single-pc FCM International	6.334
Inbound Letter Post	0.567

Marketing Mail.

Product	Average Increase (%)
Letters (overall)	6.958
Flats (overall)	11.708
Parcels (overall)	7.790
High-Density/Saturation Letters	7.327
High-Density/Saturation Flats & Parcels	7.903
Carrier Route (overall)	9.918
EDDM – Retail	9.852

Changes to piece/pound rate structure

The Postal Service revised the prices for flat-shaped Marketing Mail pieces at or below the four-ounce breakpoint ('lightweight pieces') separately from the pieces above the breakpoint ('heavyweight pieces').

> "As to lightweight pieces — mailers will continue to pay only a per-piece price; and dropship discounts will be given on these per-piece prices, so per-piece prices will still vary based upon entry (origin, DNDC, DSCF, or DDU). And for heavyweight pieces — prices will continue to have per-piece and per-pound components; pound prices will again apply to the entire weight of a piece, not just to the pounds above the breakpoint; and the Postal Service will reintroduce per-pound dropship discounts, and so the per-pound prices will again vary by dropship entry point."

New catalog discount

"The Postal Service is introducing a new incentive intended to improve reporting and analysis of catalog data within Marketing Mail (except EDDM-Retail) and Package Services.

Periodicals.

Product	Average Increase (%)
Outside County (overall)	9.758
Within County (overall)	9.701

Package Services.

Product	Average Increase (%)
Alaska Bypass Service	4.771
Bound Printed Matter flats	5.696
Bound Printed Matter parcels	5.806
Media Mail/Library Mail	9.867

Special Services.

Product	Average Increase (%)
Ancillary Services	9.197
International Ancillary Services	4.849
Address Management Services	11.939
Caller Service and Reserved Numbers	9.152
Credit Card Authorization	0.000
International BRM Service	5.700
Money Orders	12.228
Post Office Box Service	0.000
Stamp Fulfillment Services	8.641

Incentives. "The Postal Service will again offer the First-Class Mail and Marketing Mail Growth Incentives in CY 2025. Their effective dates will be January 1, 2025, and the incentive period will run through December 31, 2025. The terms of both incentives will not change from what they are in 2024."

Promotions. "The Postal Service is implementing several material changes with promotions for CY 2025, the first of which is in the introduction of "Add-On/Upgrade" Promotions. These provide mailers additional discounts for satisfying further requirements if they are already receiving an eligible "Base/Primary" Promotion, some of which are the ordinary promotions from previous years. In CY 2025, the Postal Service is offering the Informed Delivery Promotion and the Sustainability Promotion as Add-On/Upgrade Promotions, both of which apply to First-Class Mail and Marketing Mail pieces.

Senate Committee Holds Hearing About USPS Service, Network Changes

On April 16, the Senate Homeland Security and Governmental Affairs Committee held a hearing focused on the Postal Service's ongoing network changes. During the statements of committee members and their later questions, legislators were often conveying the concerns and complaints of constituents about delivery, the condition of local post offices, or the potential impact of processing facility changes in their states on postal workers and service performance.

Postmaster General Louis DeJoy was the first to speak. As could have been predicted, he reprised his usual theme that the Postal Service was in disarray before his arrival, that the Plan he developed is the only path to making the agency financially viable, and that any issues related to the ongoing network changes are short-term problems that soon will be resolved and lead to improved delivery performance.

Following the PMG was USPS Board of Governors chairman Ramon Martinez IV. He expressed full support for the PMG's Plan and repeated DeJoy's contention that more time is needed before its benefits are realized. Martinez also argued that reported USPS losses were tied to retirement costs and restrictions on how the agency can invest, both matters beyond management control.

Next was Postal Regulatory Commission chairman Michael Kubayanda, who described his panel's reviews of service change requests and the contents of the recently-released *Annual Compliance Determination* that found serious service challenges. Unfortunately, Kubayanda didn't take the opportunity to note that, among the restrictions on his agency's authority, it cannot require the Postal Service to implement the PRC's advisory opinions, including those issued about service changes.

Last to testify was Tammy Hull, the Postal Service's Inspector General. She echoed Kubayanda's concerns about USPS service and related the results of several of her agency's recent audits, including about the activation of the Richmond (VA) Regional Processing and Distribution Center. She also cited the disproportionate impact of the Postal Service's Optimized Collections initiative on patrons of rural post offices.

Aside from their back-home concerns, legislators were skeptical about whether the PMG's 10-Year Plan was properly formulated and achieving its objectives.

Committee members' concerns ranged from whether it was prudent to convert 150,000 "pre-career" workers to full-time status to decreased service performance as a result of the changes to the network. Particularly, legislators questioned whether the USPS was continuously reviewing and adjusting its Plan, especially after the challenges of the RPDC activations in Richmond and Atlanta.

Notably, nearly all panelists were displeased that the PMG had not responded to their written communications asking for more information about activities related to The Plan. (Sen Gary Peters (MI), chair of the committee, noted how his own letters weren't answered; see the March 25 issue of *Mailers Hub News*.) One senator pointed out to DeJoy that it was unwise to ignore correspondence from the panel with oversight jurisdiction over the USPS.

Similarly, committee members complained about the lack of transparency by the PMG and the USPS, leaving citizens, employees, mailers, and the legislators themselves uninformed about Postal Service decisions and actions.