Mailers Hub News

The information source for commercial mailers

July 15, 2024

In this issue …

On July 9, Mailers Hub filed comments on the PRC's "*Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products*." Those comments are shown in their entirety beginning on page 11.

PRC "Acknowledges" Parcel Select Price Increase

As has become its custom, the Postal Service coordinates price changes for market-dominant and competitive products so both can be implemented on the same day; the price change implemented yesterday was no exception.

What was different – in both – was that the Postal Regulatory Commission did not silently go through the motions of checking compliance with statutory and regulatory requirements and issuing aa approving decision.

Rather, as was reported in the June 3 issue of *Mailers Hub News* regarding the market-dominant price change, and as was the case in its July 9 order about the competitive price change, the commission was outspoken in questioning the Postal Service's decisions.

Parcel Select

In its May 10 notice to the PRC, the Postal Service stated

> "The price changes proposed in this filing are limited to the Parcel Select product. No other competitive product prices are changing for July 2024. … Parcel Select prices as a whole will increase 25.0 percent on average in July 2024"

By statute, the PRC's authority over competitive price changes – which can be established by the Governors of the USPS on their own authority – is more limited than for market-dominant price changes. As the commission stated in its July 9 order:

> "Despite significant concerns with the potential impacts of the proposed price changes, the Commission recognizes that its role in reviewing proposed Competitive product rate changes is limited by law. The Commission acknowledges the proposed price changes to be consistent with applicable law and finds that it lacks a legal basis to reject the proposed price changes."

As noted above, however, that was not all the commission had to say. Expressing its concerns openly, it added:

> "However, the Commission's approval is not an endorsement of the proposal. Indeed, the Commission is concerned that the Postal Service's proposal may have a negative and disruptive impact on the affected markets, to include the individual consumer. The concerns expressed in the record by stakeholders merit full consideration. The Commission has several specific concerns with the Postal Service's proposal and approach in this proceeding … . The Commission is concerned that the absence of thorough data and complete analysis may lead to unintended consequences.
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> "The Commission also recognizes that the concerns raised by commenters may call into question whether the Parcel Select product (both as a whole product and its subordinate units) is correctly classified as Competitive pursuant to [statute]. As a result, the Commission intends to establish a new proceeding addressing that issue as well as the legal standard for classifying Postal Service products as Market Dominant or Competitive pursuant to [that statute]."

After discussing the input of commenters and the legal boundaries of its authority, the commission stated at the end of its 33-page order that it "acknowledges the proposed price changes to be consistent with applicable law."

Concerns

Since it was established in 2006 as a reformation of the Postal *Rate* Commission, the Postal *Regulatory* Commission usually did little more than assure legal compliance. However, whether in reaction to persistent criticism from Postmaster General Louis DeJoy – or from industry observers who urged the PRC to be more assertive – the commission has found its voice more consistently in recent decisions.

In three recent orders –on March 22 regarding the "Zone 10" price structure, on May 30 approving market-dominant price changes, and July 9 for Parcel Select – the PRC has not simply issued a legal ruling, but rather has expressed its reservations to the governors about the Postal Service's pricing decisions, the adequacy of the Postal Service's data, and the potential impact of the price changes on the marketplace.

Given the information bubble in which the Postal Service sequesters the governors from external sources, it's likely that any apparent criticism of DeJoy's pricing policies was explained away by the HQ spinmeisters. If their actions are any indication, they remain under the PMG's spell.

OIG Examines Accuracy of USPS Service Reports

For a variety of reasons, the Postal Service collects information about mailpieces moving through its networks and periodically reports some of its findings, such as in the quarterly service performance data submitted to the Postal Regulatory Commission. The accuracy of those reports was the subject of an audit by the USPS Office of Inspector General and reported June 26 (*Accuracy of Reported Service Performance*, Report Number 23-168-R24).

Background

The OIG offered an overview of the Postal Service's data collection processes and how they feed the system used to generate service performance reports.

"The Postal Service uses the Service Performance Measurement (SPM) system to measure how long it takes for market-dominant mail to be delivered. SPM became the official measurement system in fiscal year (FY) 2019, replacing the External First-Class measurement system. The External First-Class measurement system, operated by a third-party, sampled over 563,000 mailpieces to calculate service performance, while the SPM system, operated by the Postal Service, samples over three million mailpieces in collections and 28 million mailpieces in delivery and captures the processing time for another 20 billion pieces of mail each quarter.

"The SPM system uses Full Service Intelligent Mail Barcodes (IMB) to determine the time mail was accepted (start-the-clock), processed (machine scans), and delivered (stop-the-clock). Only Full-Service mail with IMBs is included in SPM as other mail, such as letters and postcards mailed by an individual, do not have barcodes that can be scanned and tracked.

"The Postal Service collects data used to measure service performance by scanning mailpieces at three key points:

1. Collections/Acceptance – Employees scan pieces when mail enters the mailstream, often referred to as the First-Mile.
2. Processing – Processing machines automatically scan pieces when it is processed.
3. Delivery – Carriers sample and scan pieces when mail is delivered.

"According to the Postal Service, the processing time for nearly 78% of all commercial Full-Service mail is captured and included in SPM. Further, 92% of delivery points had at least one piece of mail measured in the processing segment of measuring service.

"The Postal Service's SPM system combines sample scans made by clerks at collection and mail carriers at delivery with automated scans from mail-processing equipment as mailpieces move through the postal network. ... These scans are fed into the USPS SPM system, which will collect, process, and transform raw data into service performance scores. ...

"… The Postal Service Reform Act of 2022 requires the Postal Service to develop its own public, interactive, service performance dashboard that presents data in a manner that is searchable and can be downloaded. The Postal Service is required to publish nationwide, regional, and local delivery performance information that reflects the most granular geographic level of performance information available. In response, the Postal Service developed and launched the USPS Service Performance Dashboard that allows the public to search for metrics such as service performance and service performance plus one, FY targets, and average days to deliver by mail type and region. …

"This audit assessed the accuracy and reliability of the SPM system, USPS Service Performance Dashboard, and the other package performance metrics reported by the Postal Service. …"

Findings and recommendations

Finding #1: *Postal Service Can Strengthen Controls Over Sampling Procedures for Acceptance and Delivery Data*

"We found that the sampling plan, methodology, and business rules used to calculate service performance in the SPM system were reasonable, and the service performance scores are accurately reported based on our analysis of the data in the SPM system. However, we identified limitations in acceptance and delivery sampling that may impact the representativeness of the data. This occurred due to limitations in SPM methodology, limitations in technology, potential issues with carrier scanning compliance during delivery, and carriers scanning more or fewer pieces than requested. Due to these limitations, neither the Postal Service nor the OIG could determine the impact on the overall accuracy of the reported service performance scores. …

"During our audit, the Postal Service noted a 'measuring error' in how it tracks first-mile mail. The Postal Service stated it has not updated its reference methodology for determining collection/acceptance sampling points, and this no longer accurately reflects the decline in mail volume and changes in customer behavior that occurred in the past decade. … Additionally, the Postal Service stated it believes the issue is impacting service performance measurement, potentially as much as 10% in adverse reporting for First Class Mail. We asked management to provide support showing this impact, however, management did not provide support and we were unable to validate this information. …

"Carriers did not always complete requested sampling for delivery scans. While the Postal Service met its target for completing 80% of sampling requests sent to carriers, we found that some sampling classifications were not included when calculating whether it met this target. …

"We found over 1 million sampling events (or about 2% of the total) where the number of pieces scanned was greater than the number requested. … Inversely, we identified 46,481 (.008%) of 5.7 million partially completed samples where Postal Service employees were expected to scan at least 20 or more mailpieces than they did. …"

Finding #2: *Postal Service's Publicized Package Performance Metrics Lacked Important Context*

"The Postal Service tracks and reports package service performance using its Product Tracking System, which is separate from SPM. Overall, we found the reported package service performance scores that were published in the two recent Postal Service reports to be accurate based on the Postal Service's methodology for calculating those scores. However, the Postal Service publicized its package performance metrics without providing context for the public to fully understand the reported results.

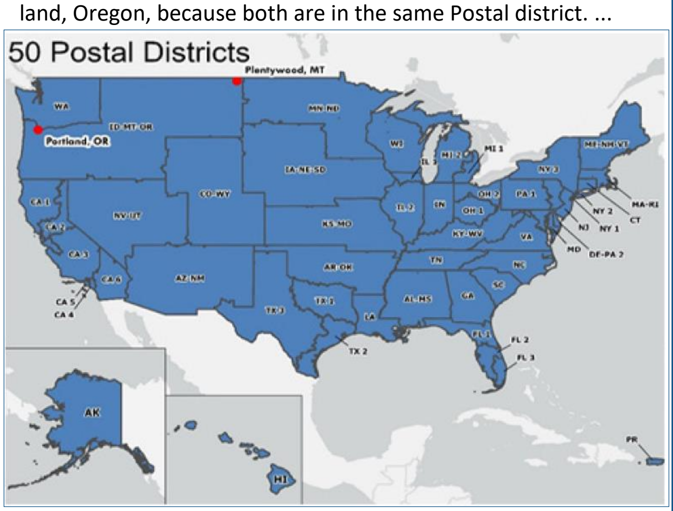
"Specifically, the Postal Service is including same day delivery package services in their metrics, which are dropped at delivery units by large mailers and delivered the same day. This does not represent an individual mailer's experience, as same day packages do not move through the entire network (processing, transportation, and delivery). …

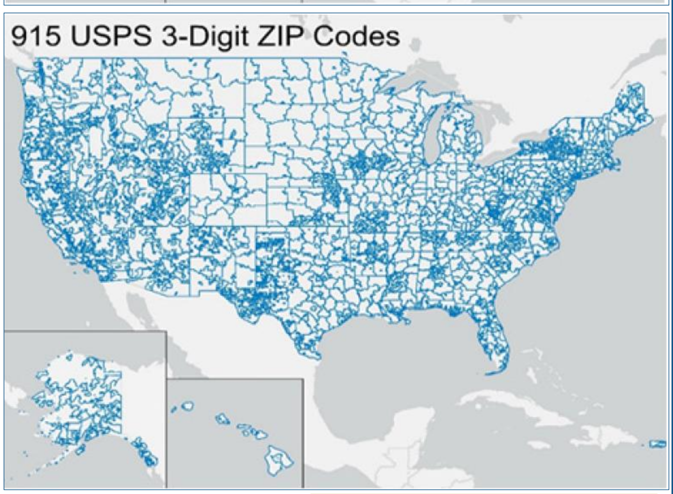
"When the Postal Service doesn't provide context on its publicized package service performance metrics, it can mislead the public overall on the timeliness of package delivery service. By being more transparent with their reported metrics, the Postal Service can build upon their reputation and gain trust from key stakeholders."

Finding #3: *Postal Service has an Opportunity to Provide More Local Service Results with its Service Performance Dashboard*

"The Postal Service's public Service Performance Dashboard matches data in SPM and complies with the Postal Service Reform Act of 2022. However, there is an opportunity for the Postal Service to make the dashboard more easily accessible to the public and to provide more granular geographic performance information.

"Specifically, the Dashboard is not easily accessible from the USPS.com homepage, as a user must navigate through five different screens to access the Service Performance Dashboard. Furthermore, while the dashboard allows the user to input their ZIP Code to search service performance scores, the score provided to the user is at the Postal District level, which can include large geographical areas, such as multiple states (see Figure 4). For example, a customer in a rural town in Plentywood, Montana, would see the same score as a customer over 1,100 miles away in Portland, Oregon, because both are in the same Postal district. ...





"It appears the Postal Service did not consider reporting scores at the 3-digit Zip Code level. … However, we found that based on current sampling volumes, the Postal Service might not need to increase their current sampling at all to report at the 3-digit ZIP Code level for Marketing Mail or First-Class Mail, which are categories that many users would be most interested in seeing. "Additionally, if the Postal Service relaxed its statistical precision standards for Periodicals and Bound Printed Matter ('BPM') mail, it could also report those scores at the 3-digit Zip Code level.

"Additional context on the reliability of the figures reported would be needed if standards are relaxed, but the benefits of increased transparency by providing users with more specific service data would be significant.

"The Postal Service could potentially report service scores for 915 3-digit ZIP Code locations compared to the current 50 District locations, which would provide users much more relevant scores based on their geographic location.

Finding #4: *Required Audits of the Postal Service's Service Performance Measurement Did Not Follow Generally Accepted Government Auditing Standards (GAGAS)*

"The external audits of the Postal Service's quarterly SPM reports, which are required by the Postal Regulatory Commission to ensure accuracy of reported service performance, were not always independent, accurate, reliable, or completed in accordance with GAGAS.

"This occurred because the contract between the Postal Service and the external auditor did not require the audits to be conducted in accordance with government auditing standards. The external auditor does not have a specialized auditing department, rather they are a management consulting firm that specializes in strategic consulting and communications. In addition, there appears to be a lack of oversight and peer reviews of the external auditor's work."

Recommendations

The OIG offered seven recommendations:

1. "… develop a system to track carrier scanning remarks, such as "passed address" or "partially completed," identify what percent is carrier non-compliance, and take necessary action to increase carrier compliance;
2. "… develop a program that limits scanning devices to allow only the requested number of pieces to be scanned;
3. "… include performance metrics representative of the end-to-end process, which does not include same day delivery package services, when reporting service performance scores for packages;
4. "… only publicize Postal Service tracked and validated metrics;
5. "… evaluate the feasibility of updating the Service Performance Dashboard to report service performance scores at the 3-digit ZIP Code level;
6. "… take immediate measures to remove mention of Generally Accepted Government Auditing Standards compliance from prior third-party audit reports on the performance measurement system filed with the Postal Regulatory Commission;
7. "… update the contract with the external auditor to require adherence to *Generally Accepted Government Auditing Standards*."

Management agreed with recommendations 1, 2, and 5, but disagreed with recommendations 3, 4, 6, and 7.

Observations

Under the administration of Postmaster General Louis DeJoy, the Postal Service is resistant to transparency about its service performance. The agency was not keen to implement the service performance dashboard mandated by the PRC, and its noteworthy that the OIG cited its obscure placement ("not easily accessible from the USPS.com homepage, as a user must navigate through five different screens").

Similarly noteworthy, given the ubiquitous spin in any USPS statement, is the OIG's findings that the "publicized package service performance metrics … can mislead the public overall on the timeliness of package delivery service."

Finally, it's a telling observation about where the PMG's interests lie when, as the OIG found, the audit of its service performance reports isn't performed by an audit firm but by a "consulting firm that specializes in strategic consulting and communications." Obviously, for the purposes of USPS publicists, making the agency's performance look good is more important than an honest presentation of the facts.

Officials Seek USPS Assurance About Election Mail

The Postal Service's continued poor service performance and the ongoing disruptions caused by changes to its transportation, processing, and delivery networks remain a concern to members of Congress.

This was reflected in a June 24 letter to Postmaster General Louis DeJoy from nineteen members of the US Senate seeking additional information about the agency's preparations for the election season. In the letter, the Senators stated:

"The United States Postal Service (USPS) did an exceptional job delivering ballots by mail in the 2020 and 2022 elections. Since 2022, however, USPS's implementation of its Delivering for America (DFA) plan has led to significant delivery issues nationwide. To ensure our constituents receive the highest possible level of mail-in ballot service this election season, we request information about the Postal Service's policies and plans to prepare for the 2024 election cycle.

"USPS serves an essential function in American elections. On a nonpartisan basis, it securely processes, transports, and delivers election mail, including ballots. In 2020, the Postal Service overcame a series of challenges, including the onset of a global pandemic, to fulfill this critical mission. Impressively, it delivered 97.9% of ballots within three days, even as a record number of Americans voted by mail. For the 2022 midterm elections, USPS maintained this standard of excellence and delivered 98.96% of ballots within three days.

"The Postal Service took extraordinary steps to achieve these results. For months before each election, it engaged in direct outreach with and offered support to thousands of election officials across the country to guarantee the secure and timely delivery of ballots. USPS also implemented special procedures to expand ground operations, including by scheduling supplemental collections and deliveries, creating special pick-ups, and extending facility operating hours. Furthermore, in the days leading up to each election, it automatically processed ballots as Priority Mail Express and deployed local turnarounds, which allowed ballots mailed to the same locality to forgo broader USPS processing.

"We applaud these achievements, but much has changed since 2022. Last summer, USPS began a series of Mail Processing Facility Reviews (MPFR) to consolidate the national postal network around Regional Processing and Distribution Centers (RP&DC). Through this process, USPS has greenlit the downgrading of 56 of 59 selected postal facilities across the country – including in Vermont, Oregon, Minnesota, Colorado, Pennsylvania, Nevada, New Hampshire, Maine, California, Washington, and Georgia. The prospect of such consolidations is particularly concerning for Americans in rural communities, who must already navigate limited postal access.

"In July 2023, USPS completed its first regional consolidation in Richmond, Virginia. A report from the USPS Inspector General found that the consolidation led to 'a decrease in service performance for the Richmond region that continued four months after launch.' Prior to July 2023, the area's on-time delivery rate was 89.7%, only 2.1% below the national average. Virginia's on-time delivery rate is now down to 71.75% for Fiscal Year 2024, 15.25% below the national average. Earlier this year, these delays led some local election officials to direct area residents to forego USPS entirely and instead place primary election ballots in designated drop boxes.

USPS continued the MPFR process for several months, despite this evidence of consolidation-related service disruptions. In February 2024, for example, USPS consolidated Oregon's postal operations around an RP&DC in Portland. Despite USPS assurances that the consolidation would minimally affect residents, mail delays have already been reported in Southern Oregon. This area has a higher proportion of seniors and veterans compared to the national average, a group that heavily depends on USPS for medication, bill payments, and ballots, and cannot afford to experience any delays in service.

"We are encouraged that, in the face of strong bipartisan opposition, USPS has now paused the MPFR process until after the 2024 election. However, as you indicated in your recent letter to the Senate Committee on Homeland Security and Government Affairs, that pause is set to expire in January 2025. Further, despite repeated requests from stakeholders and Members of Congress, the Postal Service has failed to provide evidence that these consolidations will not degrade service nationally, as they have done in Virginia and Oregon.

"We believe that the Postal Service remains well-equipped to securely deliver mail-in ballots. However, given the service disruptions already resulting from the DFA plan, we fear the same approach adopted by USPS in 2020 and 2022 may not be sufficient to guarantee on-time delivery results.

"To ensure effective postal operations for the upcoming election, we request responses to the following questions by July 24, 2024:

1. Has USPS conducted any studies evaluating the DFA plan's short- and long-term impact on election mail operations? If so, please provide us with a copy of such studies. If not, why not?
2. During the MPFR pause, will the Postal Service commit to providing evidence that the consolidation will not result in further degradation of service for customers?
3. Please describe any efforts the Postal Service has taken or plans to take to engage in direct outreach and offer support to election officials for the 2024 election, as it did during the 2020 and 2022 election cycles.
4. Since 2022, has USPS developed new election mail strategies to account for continued implementation of the DFA plan?
5. In the upcoming election, how does the Postal Service intend to improve service for the communities where it has already proceeded with postal consolidations?
6. What support from Congress, if any, does USPS need to ensure on-time delivery of election mail?

Observations

Though the writers gave the PMG a month to produce a response to their questions, it remains to be seen whether such a response will be forthcoming. DeJoy has been criticized before for failing to reply to letters and questions from Congress. Regardless, if he does send answers to the Senators' questions, how much candid information will be provided is another matter.

The PMG's team of publicists is skilled at staying on message and offering stock answers – that DeJoy's plan is essential and being implemented smoothly. Accordingly, there likely will be a series of obfuscating answers about how studies weren't needed, that service is improving, and that past strategies to manage election mail are still in place. As in prior instances, assurances will be given that any current issues will be resolved soon – just a little more time is needed.

Whether the writers will scrutinize DeJoy's responses and follow-up on any commitment he might make remains to be seen, but odds are they'll just move on to something else.

More Mail Will Need Customs Forms

In two related *Federal Register* "Final Rule" notices on June 18 and 21, the USPS announced the elimination of Customs Declaration Exceptions in the *Domestic Mail Manual* (DMM) and Know Mailer and Exceptions in the *International Mail Manual* (IMM).

Effective September 29, 2024, all packages to APO, FPO, and DPO addresses will require customs forms, and the official mail and known mailer exceptions will end. The two filings effect many different groups: periodical publishers, non-profit mailers, government mailers, the military and their families and friends. The USPS rejected all comments questioning the wisdom of these changes.

Customs forms are usually required for any international mail containing goods or that exceed the dimensions of a flat. The exemptions to that requirement will end on September 29. In addition, more customs forms will be required for military and diplomatic mail; all goods and any item larger than a flat to APO, FPO, and DPO addresses will require a customs form.

Known Mailer and Exceptions

The USPS has had a designation of "Known Mailer," detailed in the IMM, that has allowed international mailers in certain cases to mail items with a low-value and periodicals without a customs form or filing Advance Electronic Data (AED). Mailers needed to meet the qualifications and apply for Known Mailer status, with regular re-qualifications to maintain this status.

The low-value exception was often used by nonprofits when fundraising outside the United States, sending a small gift to the donor. It was also used by companies to provide an incentive for a subscription or purchase. Pens, tee shirts, small toys, and the like with a value of less than $1.00 did not require a customs form from a Known Mailer. They will now require a customs form, although the value is so low that customs duty or taxes are unlikely to apply.

The requirements for AED information in the SSF would also apply for commercial mailers. These requirements will add costs for the nonprofits and they will need to examine the impact of those additional costs compared to the funds raised or the value of the subscription or order.

The other common use of the Known Mailer designation has been by periodical publishers of all kinds – commercial, association, nonprofit, and any others – for international print fulfillment. There is no international mail class for periodicals; periodicals that have a price are classed as goods.

With the end of the Known Mailer program, each one will require a customs form. Whether this is true of free periodicals is not clear; they may qualify as documents. Because any document that exceeds the maximum for flats requires a customs form, all larger format periodicals will need a form.

Again, requirements for AED information in the SSF would also apply. Since periodicals can easily be delivered digitally or printed outside the US., this may lead to less mail for the USPS.

Customs Declaration Exceptions in the DMM

Historically, customs forms have applied to international mail. Since some military mail (APO and FPO addresses) goes to foreign countries even though they have US addresses, packages and goods to certain APO and FPO addresses required customs forms. All DPO-addressed mail is delivered in foreign countries, requiring customs forms for packages and goods. As of September 29, all packages and any items containing goods to any APO, FPO, or DPO address will require a customs form. This applies to bases in US territory as well as foreign countries.

Those primarily effected by this particular change may well be the families and friends of those serving in the military or diplomatic services. They will now need to complete a customs form for any military or diplomatic package they send to their service members. For some, this may be sufficiently difficult that the items will not be sent.

The other change in the DMM regarding customs forms removes the Official Mail exception. This allowed the government agencies, including the State Department and the military, to send official documents, including those that were sensitive, via the mail without making them in ways that are contrary to military or State Department regulations. Material with a customs form is subject to inspection by the originating country's authorities and the authorities in the destination country, which may disclose them to unauthorized persons.

Some of those who commented suggested the elimination of official mail would be problem for sensitive material. The USPS has responded to comment that the customs form can acceptably say "documents." This solution may not satisfy the requirement for specific descriptions in all cases.

Comment

The USPS has cited bringing their regulations into alignment with US Customs regulations and international law as reasons for these changes. There is some disagreement among countries on the latter point: some other countries accept periodicals, including larger sizes, as documents and do not require customs forms. For the USPS, the changes treat all international mail packages and goods consistently, simplifying the process and eliminating the need to check Known Mailer registrations or Official Mail requirements.

Whether this is a disservice to some mailers or the military and diplomatic services (and their families) does not seem to be a consideration – nor does the potential for decreasing the outbound international mail entered to the USPS.

The final rules, including comments and responses, are available at *www.federalregister.gov/documents/2024/06/21/2024-13425/customs-declaration-exceptions* and *www.federalregister.gov/documents/2024/06/18/2024-13264/known-mailer-and-exceptions*.

This article was produced by Merry Law, Mailers Hub's expert consultant on international mail.
Merry may be reached at MLaw@WorldVu.com.

PRC Opens Rulemaking About USPS Service Measurement

In an order issued July 2, the Postal Regulatory Commission opened a rulemaking to evaluate the Postal Service's service performance measurement system.

As is reported regularly in *Mailers Hub News*, the current system does not measure service on a significant portion of the mailstream. In PQII/FY2024 (January-March), for example, only 63.81% of First-Class Mail (all commercial rate), 72.37% of Marketing Mail (mostly destination-entered), 51.60% of Periodicals (mostly outside-county), and 23.44% of Package Services (only Bound Printed Matter flats) was in measurement. Most of the remainder was excluded from measurement for one of fifteen reasons prescribed by the USPS.

The order

In its order, the PRC stated:

> "By law, the Postal Service is required to maintain an objective external system for measuring service performance with respect to its Market Dominant mail products, unless the Commission approves the use of an internal measurement system. Prior to 2018, the Postal Service relied on an external measurement system for First-Class Mail single-piece letters and flats, and a hybrid external/internal measurement system for letters and flats entered in bulk. In 2018, the Commission provided approval for the Postal Service to begin replacing these former systems with an internal measurement system known as the Internal Service Performance Measurement (SPM) System.
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> "From a design perspective, SPM was intended to produce accurate, reliable, and representative results. When the Commission initially approved the use of SPM, the Commission noted several ongoing issues that were unresolved, but that the Postal Service was in the process of improving. The Commission's expectation at that time was that the data on which the system relies would consistently improve in quality and quantity. However, this has not proven to be the case. The volume of mail in measurement has, in fact, stagnated. Across several dockets, commenters have described a growing divide between the service performance results reported by the Postal Service and the actual experience of mailers. These concerns have been exacerbated by recent operational changes by the Postal Service which raise questions as to whether the current operational environment is sufficiently analogous to the operational environment for which SPM was designed. In its FY 2023 Annual Compliance Determination, the Commission expressed its intention to conduct an evaluation of the accuracy and reliability of SPM and the data generated by it.
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> "In light of the foregoing, the Commission is opening this docket to address concerns that service performance results as reported by SPM may not accurately represent customer experience for the country as a whole. The Commission intends to review SPM to gain an understanding as to whether the design and implementation of SPM continues to produce accurate, reliable, and representative results in the current operating environment, as the law requires. If this review reveals that SPM is not producing accurate, reliable, and representative results, then the Commission's intent is to identify changes to SPM's design and implementation that would bring it into alignment with legal requirements. If such changes are not feasible, then the Commission will have to consider whether it is necessary to return to external service performance measurement. …
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> "… [T]he service performance results produced by SPM are an amalgamation of granular and siloed evaluations of performance for the individual segments of mail collection (First Mile), mail processing (Processing Duration), and mail delivery (Last Mile). Given recent changes in operations and mail mix, the Commission has concerns about the continued validity of the design and implementation of each of these three systems, as well as how the systems function collectively as a whole.

Twenty of the order's 53 pages were used to detail the commission's concerns with the current system, including:

- "the continued validity of a specific aspect of the design of First Mile sampling, which is that the current system was designed to exclude from direct sampling all mail that is entered at customer mailboxes, rather than collection boxes or retail facilities";
- "the percentage of eligible mail that is excluded from measurement; the persistent causes of exclusion that are attributable to the Postal Service's operations and data systems; and the lack of information on mail that is processed outside the automation mailstream";
- "the reported explanation for why billions of pieces of First-Class Mail Presort letters and flats and USPS Marketing Mail have been excluded from measurement";
- "the Postal Service has made little progress in addressing the issues surrounding reasons for exclusion from measurement";
- "the possibility of non-sampling error caused by the intentional exclusion of mail that is not processed in the automation mailstream";
- "when the "Start-the-Clock" event occurs for purposes of Processing Duration measurement";
- "a seeming disconnect between the number of delivery points selected for inclusion in Last Mile sampling and the number of delivery points with sample responses that were deemed valid";
- the possibility of non-robust measurement results due to the Last Mile Sample size and the possibility of bias due to the considerable number of delivery points that are excluded from it";
- "the continued exclusion of all mail that does not have a last processing operation scan to establish a timeline for the Last Mile";
- "how the segments collectively interact to produce an end-to-end measurement of service performance"; and
- "the possibility that the reported end-to-end measurements could be biased towards mail volume with characteristics that make it disproportionately likely to receive better service."

The commission noted that comments – due September 11 – can address any matter "within the scope of this proceeding," and it offered "specific topics on which it would particularly appreciate comment":

1. Is SPM in its current state producing accurate, reliable, and/or representative measurements of the Postal Service's service performance? If not, what specific aspect of SPM's design and/or implementation is causing service performance measurement to be inaccurate, unreliable, and/or unrepresentative?
2. Are there modifications that could be made to SPM in its current state that would result in it being more accurate, reliable, and/or representative?
3. Are there alternative measurement systems (either external or internal) that would be more accurate, reliable, and/or representative than SPM?

Given ratepayers' interest in USPS service, and the gap between what the agency claims and what's reported by external entities that measure performance independently, the PRC's attention to the USPS service performance measurement process is both timely and welcomed. That's likely less true for the Postal Service itself; under Postmaster General Louis DeJoy, it's become more important to spin information into favorable publicity than to objectively state the facts.

USPS Argues Against Review of Ratemaking System

Among the comments submitted July 9 on the Postal Regulatory Commission's review of the ratemaking process were those of the Postal Service; what the agency said was not surprising.

The order

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 opened a docket to review the ratesetting process for market-dominant products, specifically to consider whether it is meeting the requirements detailed in the 2006 postal reform law (the *Postal Accountability and Enhancement Act*).

After a 2020 rulemaking, the commission planned future reviews every five years, so 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 about unintended consequences.

Comments

The Postal Service was one of the seventeen commenters (including Mailers hub) but advocated a position not shared by the others. In its 84-page filing, the USPS questioned the legitimacy of and the need for initiating a review before scheduled, argued against altering the current ratemaking process, but asserted than any changes that would be made should increase its pricing authority.

> "It is unclear whether the Commission contemplates examining discrete aspects of the ratemaking system, consistent with the standard for early reexamination that it articulated in Order No. 5763, or whether it has abandoned that standard and is instead thinking of conducting a holistic system-wide review. In either case, the identified concerns that purportedly animated Order No. 7032 are not new; they cover longstanding problems and well-aired grievances that have frequently been put before the Commission and have failed to prompt intervention. No new facts, analyses, or other empirical evidence demonstrate that circumstances have fundamentally changed and that a review is now justified.

> "To the contrary, the ratemaking system appears to have operated as reasonably should have been expected. While the modified system has not allowed the Postal Service to attain cost coverage, it has provided us the opportunity to generate additional revenue in the short-term while we pursue cost reduction measures and other efficiency improvements to achieve financial stability in the longer term. There are, in short, no serious ill effects that must be immediately remedied and no obvious reason for the Commission to change course now and abandon its conclusion that the revised system should operate for five years before any aspect of it is reconsidered.

> "Moreover, the Governors' decisions to use the full available authority and to raise rates twice per year are within their sole discretion, as the Commission has repeatedly recognized. Those decisions are perfectly rational, particularly given the Postal Service's financial condition and the impacts of inflation. Therefore, any misplaced concerns by the Commission about the Governors' exercise of their business judgment in this regard provide no legitimate basis to prematurely review the system."

The comments also aligned with Postmaster General Louis DeJoy's claims that all will be well in time:

> "It takes time to plan and implement organizational initiatives, and it will take even longer for the full financial benefits to be realized, especially if we are forced to move more slowly than planned. The Postal Service is fully committed to becoming a high-performing and financially sustainable organization, but it would be unreasonable to expect the Postal Service's operational and financial challenges to be solved in three years."

Also consistent with the PMG's pursuit of revenue and his objections to the CPI-based price cap, the agency argued:

> "In short, the modified system has thus far failed to ensure the Postal Service has 'adequate revenues, including retained earnings, to maintain financial stability.' These findings are unchanged since the Ten-Year Review, and are consistent with the Commission's Financial Analysis Reports since the modified system went into effect, resulting in the same conclusion: the system, at present, has failed."

> "We continue to maintain, as we discussed at length in our comments during the Ten-Year Review, that the best approach to satisfy the statutory objectives is to replace the price cap with a system built around regulatory monitoring. Rather than own the risk of setting the price cap at an inappropriate level, the best way to fulfill the regulatory criteria at this moment is to give the Governors a period of full flexibility to achieve financial stability and invest in efficiency and service."

If a cap regime were to continue, the USPS added, it should be "reset … to an appropriately compensatory level," i.e., to a level that will cover all USPS costs – as the PMG believes it should. That such a reset, or elimination of a cap, would effectively relieve the USPS of any burden of cost control wasn't examined. Unabashedly, the agency claimed that "although a rate reset would result in more available rate authority, it would not produce unreasonably high or unjust rates."

The Postal Service also argued that

> "… in addition to granting the Postal Service additional pricing authority … the Commission should consider exempting dropship discounts from the workshare rules."

It asserted that the current drop-ship discounts unfairly reward mailers for downstream entry close to the point of production and for bypassing the postal network. Behind the econometric jargon of the Postal Service's argument was the simple fact that the PMG wants full trucks in his transportation network, and discouraging drop-shipment by mailers would enable that. Generating more work for postal employees along the way (the unions dislike drop-shipment) was another unspoken purpose.

In conclusion, the USPS stated:

> "If the Commission were to conduct a premature systemwide review now, it would have to conclude that the system is failing for the same primary reason as in the Ten-Year Review: the Postal Service's net losses represent a failure to achieve financial stability. … If the Commission decides that it must act now, then it cannot escape the need for prices to be rebased to fully compensatory levels. … But now is not the time for the Commission to act. The only rational and legally tenable action is to close this docket and follow the original plan to begin the next system review in 2026."

While everyone may agree that the current process isn't working, the question is why: inadequate revenue, or excessive costs? The likely vote by ratepayers would be the latter.

All the Official Stuff

Federal Register

Postal Service

NOTICES

July 10: Product Change [25]: Priority Mail Express, Priority Mail, and USPS Ground Advantage Negotiated Service Agreement [20], 56679, 56679, 56780, 56780, 56780, 56780, 56781, 56781, 56781, 56781, 56782, 56782, 56782, 56782, 56782, 56783, 56783, 56783, 56784, 56784; Priority Mail and USPS Ground Advantage Negotiated Service Agreement [5], 56780, 56781, 56782, 56783, 56783.

July 11: Product Change [14]: Priority Mail Express, Priority Mail, and USPS Ground Advantage Negotiated Service Agreement [13], 56907, 56908, 56908, 56908, 56908, 56909, 56909, 56909, 56909, 56909, 56910, 56910, 56910; Priority Mail Negotiated Service Agreement, 56908.

July 12: International Product Change-Removal of International Money Transfer Service-Outbound and International Money Transfer Service-Inbound, 57174.

July 15: International Product Change – International Priority Airmail, Commercial ePacket, Priority Mail Express International, and Priority Mail International Agreement, 57436.

PROPOSED RULES

[None].

FINAL RULES

[None].

Postal Regulatory Commission

NOTICES

July 3: New Postal Products, 55283.

July 5: New Postal Products, 55662-55663.

July 10: New Postal Products, 56778-56779.

July 11: New Postal Products, 56906-56907.

July 15: International Money Transfer Service, 57433-57434; New Postal Products [2], 57434-57435, 57435.

PROPOSED RULES

July 10: Service Performance Measurement Systems for Market Dominant Products, 56679.

FINAL RULES

[None].

DMM Advisory

[None].

Postal Bulletin (PB 22654, July 11)

- Effective **August 1**, Labeling Lists L004, L007, L012, and L606 are revised to reflect changes in mail processing operations. Mailers are expected to label according to these revised lists for mailings inducted on or after the August 1, 2024, effective date through the September 30, 2024, expiration date.
- Effective July 14, the DMM is revised to reflect changes to certain prices and mailing standards established by the Governors of the United States Postal Service for the following competitive products: Recipient Services; Other. New prices and an article with detailed revisions to be made to the DMM regarding these standards will be available on the Postal Explorer website at pe.usps.com. … Premium Forwarding Service Local (PFS-Local) is being expanded to have mail that is addressed to a residential/individual, and business/organization Post Office Box dispatched to a street address when both addresses are within the same local-servicing Postal Service facility or sorting and delivery center (S&DC). … Under Phase 1 of the Postal Service network future state, the Postal Service is revising the DMM to provide site-mapping nomenclature for facilities (e.g., network distribution center/regional processing and distribution center [NDC/ RPDC]). Phase 1 will not include site mapping in the Quick Service Guides (QSGs) or revisions to destination entry pricing nomenclature or labeling lists. In some cases, where there is overlapping nomenclature in the DMM for market dominant and competitive products (e.g., DMM 204.3.0), the site-mapping nomenclature is included in the "New Mailing Standards for Domestic Mailing Services Products" Federal Register notice (89 FR 27330-27353). … These standards will become effective on July 14, 2024.
- Effective **November 4**, DMM 608 and 703 are revised to delete the "known mailer" and "official mail" exceptions for customs declarations for mail to, from, or between overseas US military and diplomatic Post Office addresses. As noted in the article "Customs Declaration Exceptions" published June 21, 2024, in the notice of final rulemaking in the *Federal Register* (89 FR 51976), these revisions are being made to align the DMM with current customs policies. ... Although these revisions will not be published in the DMM until November 4, 2024, these standards are effective September 29, 2024.
- Effective **July 14**, IMM 251, 370, and 372 are revised to reflect the classification revisions to International Competitive Services as established by the Governors of the Postal Service and as noted in this article. Also, effective July 14, 2024, the Postal Service will make similar revisions to Notice 123, *Price List*, available on Postal Explorer at *pe.usps.com*.
- Effective **September 29**, IMM 123 and 272 are revised to remove the "known mailer" definition and exceptions for customs declarations. As noted in the article titled "Known Mailer and Exceptions" published on June 18, 2024, in the notice of final rulemaking in the *Federal Register* (89 FR 51446), these revisions align with current customs policies. ... Although effective September 29, 2024, these revisions will not appear in the online IMM until the edition expected to be published on November 4, 2024.
- Effective **June 30**, Publication 223, *Directives and Forms Catalog*, was revised to include current information for the items noted.

Postal Bulletin announcements of revisions to the DMM, IMM, or other publications often contain **two** dates: when a *revised document* is effective, and when a *revised standard* is effective. The effective date of a revised standard is typically *earlier* than when it will appear in a revised publication.

USPS Industry Alerts

July 2, 2024

Webtools Label Migration Dates

On July 14, 2024, the Webtools Label API is retiring. All users must migrate to the USPS Labels APIs. Contact your USPS account representative for assistance in migrating to the USPS Labels API v3. They can provide you with a Migration Feedback Form to facilitate the migration to the modernized API label solution. Migration Deadline Details for Label APIs: Integrators using the Web Tools Domestic, International, Returns Label APIs, and SCAN Form API should migrate to the new USPS Domestic and International Label APIs by July 14, 2024. The new USPS Label APIs (https://developer.usps.com) offer more API customization, product offerings, and payment options. Additional features include increased security via OAuth 2.0 authentication and webhooks push notifications. Additional Support for Migration: Additional support for Label API migration and Mapping can be found under Announcements at Web Tools APIs | USPS. Contact APISupport@usps.gov and webtools@usps.gov for additional support.

Web Tools Label APIs	USPS Label APIs
eVS (Domestic)	Domestic Label API (Domestic Labels 3.0)
eVSCancel	Domestic Label API (Domestic Labels 3.0)
eVSExpressMailIntl	International Label API (International Labels 3.0)
eVSPriorityMailIntl	International Label API (International Labels 3.0)
eVSFirstClassMailIntl	International Label API (International Labels 3.0)
eVSICancel	International Label API (International Labels 3.0)
SCAN	SCAN Form API (SCAN Form 3.0)
USPSReturnsLabel	Domestic Label API (Domestic Labels 3.0)

July 5, 2024

Mail Spoken Here – June 2024 Edition – Industry Engagement & Outreach Newsletter

Please enjoy the latest edition of Mail Spoken Here attached. The newsletter contains informative and important articles on the following topics: Biden-Harris Administration Honors USPS with Presidential Federal Sustainability Award - USPS was Recognized for Advancing the Government's Sustainability and Climate Resilience; PMG Defines Change Imperative and Touts Modernization Progress at NPF; Mercury Remains Prohibited in The Mail; Chief Logistics Officer and Executive Vice President Announces Retirement and New Organizational Structure Announced; Central Area Vice President to Retire; Juneteenth - The Newest Federal Holiday Commemorates the End of Slavery; National PCC Week 2024 – Save the Date; Webtools Label Migration Dates; July 2024 PCC Events Calendar; In-Person, Virtual, or Hybrid PCC Events; A Biography of an Early Postmaster General - Ebenezer Hazard Began his Role in 1782; Faster than Express - The Missile Mail Experiment Took Place on June 8, 1959; New Stamps - Release Date, Location Updates (Clue: This Naturalized U.S. Citizen will be Honored with a Stamp; USPS to let new stamps fly on Flag Day; Along for the Rides - Carnival Nights Stamps are Here); Mailers Technical Advisory Committee (MTAC); Upcoming Events; A few Fun Facts about July!; *Federal Register* Notices; Negotiated Service Agreements – Listing; The Latest *Postal Bulletin*s. Thank you for taking the time to read. We hope you enjoyed this latest edition and that you had a wonderful holiday week.

July 5, 2024

Webtools Migration Dates

Web Tools APIs	USPS APIs Equivalent
Track & Confirm V2	Tracking
Address Validation	Addresses
City & State Lookup	Addresses
Express Mail Commitments	Service Standards
Domestic Rates V4	Domestic Prices
Service Delivery Calculator	Service Standards
Post Office Locator V2 - Internal	Locations
ZIP Code Lookup	Addresses
International Rates V2	International Prices
Priority Mail Service Standards	Service Standards
First Class Mail Service Standards	Service Standards
Post Office Locator V2 - External	Locations
Track and Confirm Email	Tracking
Return Receipt Electronic	Tracking
Hold For Pickup Facility Information	Locations
Drop Off Locator	Locations
Pkg Services Service Standards	Service Standards

On January 25, 2026, the Webtools API platform is retiring. All users must migrate to the new USPS APIs. Contact your USPS account representative for assistance in migrating to the USPS APIs. They can provide you with a guidance to facilitate the migration to the modernized API solution. Migration Deadline Details for Label APIs: Integrators using the Web Tools APIs must migrate to the new USPS APIs before January 25, 2026. All integrators using the Web Tools Labels APIs were instructed to migrate by July 14, 2024. The new USPS APIs (https://developer.usps.com) offer more API customization, product offerings, payment options, and improved performance. Additional features include increased security via OAuth 2.0 authentication and webhooks push notifications. Migration dates: Label APIs must be migrated by July 14, 2024 and include the following: [see the July 2 *Industry Alert*, above]. All other APIs must be migrated before January 25, 2026. [The list at left] shows the Web Tools API with the new USPS APIs equivalent. This list is not exhaustive. Additional Support for Migration: Additional support for API migration and Mapping can be found under Announcements at Web Tools APIs | USPS. Contact APISupport@usps.gov, and webtools@usps.gov for additional support.

July 11, 2024

WestPac Area: AIM Meeting

Wednesday, August 7, 10:30am-2:30pm. Santa Clarita P&DC, 28201 Franklin Pkwy, Valencia CA.
To register: https://AIMWestPac2024.eventbrite.com.

July 12, 2024

Business Customer Gateway eDoc Training Series – Intelligent Mail for Small Business Tool (IMsb)

The Postal Service is hosting bi-weekly webinars on utilizing the Business Customer Gateway (BCG) for electronic documentation (eDoc) and postage statement submission. The topics alternate between using the Business Customer Gateway (BCG) / Postal Wizard (PW) and Intelligent Mail for Small Business (IMsb) Tool applications. Learn how to eliminate hard copy postage statements and submit Full-Service mail! Software customers should work with their software provider to find eDoc solutions. As an additional tool to assist mailers with the conversion to Electronic Postage Statement submission, the Postal Service has published a video outlining how to use the Business Customer Gateway and Postal Wizard postage statement submission available on PostalPro: Industry Session: Business Customer Gateway and Postal Wizard Recording | PostalPro (usps.com). Also, a recording of the IMsb Tool session has been posted on PostalPro: Industry Session: Intelligent Mail Small Business (IMsb) Tool Recording | PostalPro (usps.com). Upcoming webinars: July 16, Business Customer Gateway (BCG)/ Postal Wizard (PW); July 30, Intelligent Mail for Small Business Tool (IMsb); August 13, Business Customer Gateway (BCG)/ Postal Wizard (PW). Join us for the next session – Business Customer Gateway (BCG)/ Postal Wizard (PW) on Tuesday, July 16, 2024, at 1:00 PM EST. Meeting URL: https://usps.zoomgov.com/j/1603767418?pwd=TTFONWNVMXQ2UW1wcUVCcEt5WFlIZz09; Meeting ID: 160 376 7418; Password: 996767. If requested, enter your name and email address; Enter meeting password: 996767. Join Audio by the options below: Call using Internet Audio; Dial: 1-855-860-4313, 1-678-317-3330 or 1-952-229-5070 & follow prompts. Note: Meeting links and presentations are also posted on PostalPro and can be found at Mailing Services | PostalPro (usps.com).

Calendar

To register for any Mailers Hub webinar, go to MailersHub.com/events

July 14-17 – NACUMS Educational Conference, Austin (TX)
July 23-25 – ***Mailers Hub*** **Series: Print Management**
July 30 – ***Mailers Hub*** **Webinar**
August 13-14 – MTAC Meeting, USPS Headquarters
August 20 – ***Mailers Hub*** **Webinar**
September 10-12 – Printing United Expo, Las Vegas (NV)
September 17 – ***Mailers Hub*** **Webinar**
October 1 – ***Mailers Hub*** **Webinar**
October 15 – ***Mailers Hub*** **Webinar**
October 22-23 – MTAC Meeting, USPS Headquarters
November 12 – ***Mailers Hub*** **Webinar**
December 3 – ***Mailers Hub*** **Webinar**

The services of Brann & Isaacson are now available to provide legal advice to subscribers. The firm is the Mailers Hub recommended legal counsel for mail producers on legal issues, including tax, privacy, consumer protection, intellectual property, vendor contracts, and employment matters. As part of their subscription, Mailers Hub subscribers get an annual consultation (up to one hour) from Brann & Isaacson, and a reduced rate for additional legal assistance. The points of contact at Brann & Isaacson are: Martin I. Eisenstein; David Swetnam-Burland; Stacy O. Stitham; Jamie Szal. They can also be reached by phone at (207) 786-3566.

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COMMENTS OF MAILERS HUB

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET DOMINANT PRODUCTS (CONSOLIDATING DOCKET NOS. RM2024-4, RM2022-5, RM2022-6, AND RM2021-2)	DOCKET NOS. RM2024-4 RM2022-5 RM2022-6 RM2021-2

COMMENTS OF MAILERS HUB
(July 9, 2024)

Pursuant to Order No. 7032, Mailers Hub submits the following comments on the Postal Regulatory Commission's *Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products* ("Notice"), issued April 5, 2024.

I. BACKGROUND

For the first thirty-five years of the Postal Service's existence, ratemaking occurred under a cost-of-service regime. Often following a three-year cycle – surplus, break-even, and loss – the process assigned attributable and institutional costs to the classes of mail and increased prices accordingly. The ten-month process featured litigation before the Commission's predecessor panel and protracted disputes among ratepayer groups. The process was slow, tedious, costly, and not designed to reduce Postal Service costs or foster efficiency.

In the years leading to enactment of the 2006 *Postal Accountability and Enhancement Act* (PAEA), a consensus grew that, instead of the cost-of-service ratemaking process, one that aligned price increases with changes in the cost of living should allow the Postal Service to operate at or near break-even – if the agency managed its costs effectively. Eventually, that concept became more widely accepted, and was reflected in the PAEA's original ratemaking system.

In its Notice, the Commission summarized the events leading up to the instant proceeding. It noted that the PAEA

> "mandated certain features that the ratemaking system in its initial form had to include, most prominently a price cap limiting rate increases to annual changes in the consumer price index for all urban consumers (CPI-U)."

Thereafter, Postal Service pricing authority was linked to changes in the CPI-U, using formulae developed by the Commission based on the interval between price filings being twelve months, more, or less.

In a review to be conducted ten years later (i.e., in 2016), that law further required the PRC "to determine if [the ratemaking system] had achieved 9 statutory objectives specified by the PAEA, taking into account 14 statutory factors" also detailed in the PAEA. In turn,

> "[i]f the Commission determined that the ratemaking system had not achieved the statutory objectives, taking into account the statutory factors, then 'the Commission may, by regulation, make such modification or adopt such alternative system ... as necessary to achieve the objectives.'"

For that review, the PAEA gave the Commission a relatively straightforward assignment:

> "… review the system for regulating rates and classes for market-dominant products established under this section to determine if the system is achieving the objectives in subsection (b), taking into account the factors in subsection (c)."

The mandate did not seek an examination of the circumstances or events that may have contributed to the Commission's findings, and therefore did not provide the Commission with an avenue to condition or mitigate a direct conclusion, i.e., it had no way to say "no, but." Therefore, it's simple answer, presented on December 1, 2017, in Order No. 4257, was that "the overall system has not achieved the objectives taking into account the factors of the PAEA."

The Commission concluded that the ratemaking system failed to achieve three of the law's objectives: Objective 1, pricing and operational efficiency; Objective 5, USPS financial stability; and Objective 8, maintenance of reasonable rates. Specifically, the Commission determined that

- "the system was largely successful in achieving the goals related to the structure of the ratemaking system" but it "has not increased pricing efficiency";
- "the system has not maintained the financial health of the Postal Service as intended by the PAEA";
- "high quality service standards have not been maintained during the past 10 years under the PAEA"; and
- "the current system does not effectively encourage the Postal Service to maintain service standards quality."

As a result, under the authority given it by the PAEA, the PRC initiated a rulemaking that, after two rounds of notice-and-and comment, concluded on November 30, 2020, when the Commission issued Order No. 5763. That Order provided, among other things, two "additional forms of rate authority" ("adders") to be effective January 14, 2021. One was "density rate authority to address the increase in per-unit cost resulting from declines in mail density" ("density") and the other was "retirement rate authority to address the statutorily mandated amortization payments for retirement costs" ("retirement"); each was to be calculated by a formula specified by the Commission. In addition, "[t]o incrementally address long-standing problems concerning non-compensatory classes and products," the PRC also provided a third "adder," "an additional 2 percentage points of rate authority per fiscal year for each non-compensatory class of mail" ("non-compensatory").

COMMENTS OF MAILERS HUB

In Order No. 5763, the PRC stated

> "The modified ratemaking system that the Commission adopts in this Order is designed to achieve all of the PAEA's statutory objectives in conjunction with each other. The modifications address the deficiencies of the PAEA ratemaking system identified in Order No. 4257 while maintaining achievement of the remaining objectives. ... The density-based rate authority and retirement-based rate authority are designed to address the two underlying causes of the Postal Service's net losses that are largely outside of its control: the proportion of the increase in per-unit cost resulting from the decline in mail density and the statutorily mandated amortization payments for retirement costs. By addressing these two substantial and uncontrollable drivers of the Postal Service's financial distress, the final rules are intended to permit the Postal Service to improve its financial stability (Objective 5) and maintain existing service standards (Objective 3), without reducing the Postal Service's incentives to reduce costs and increase efficiency (Objective 1)."

Regarding additional rate authority for "non-compensatory" classes, the Commission stated:

> "The additional 2 percentage points of rate authority made available for non-compensatory classes is aimed at narrowing the cost coverage gap over time and is not projected to produce positive returns within 5 years. ... By taking an incremental approach to addressing these long-standing issues, the final rules are designed to ensure that the ratemaking system would not incentivize the Postal Service to solely raise rates to address non-compensatory classes and products."

Lastly, it explained a new form of rate authority it opted not to implement:

> "Upon consideration of the comments received, the Commission declines to implement the proposed rules relating to performance-based rate authority at this time and will defer consideration of the related issues to a new rulemaking docket."

As the Commission stated,

> "Together, these modifications were 'designed to remedy the deficiencies in the existing ratemaking system identified in Order No. 4257' and were 'intended to balance the PAEA's statutory objectives in order to place the Postal Service on a sustainable financial path for the future.'"

In summary, the PRC stated

> "Taken together, the Commission's analysis of each of the three principal areas of the PAEA era system leads it to conclude that while some aspects of the system of regulating rates and classes for market dominant products have worked as planned, overall, the system has not achieved the objectives of the PAEA. As a result, the Commission concurrently issues a Notice of Proposed Rulemaking (NOPR) to address the shortcomings identified by the Commission in its review."

II RELATED CIRCUMSTANCES

Subsequent events, policies, and circumstances (or their consequences) may not have been fully anticipated by the Commission prior to November 2020.

A. Prefunding

Any hope for the original PAEA ratemaking system to enable break-even annual financial results, let alone generate retained earnings, was fatally disabled when the "prefunding" requirement was included in the final legislation. (The burden of the prefunding mandate was recognized by the Commission during its 2016 review and motivated establishment of the "prefunding" "adder.") Consequently, there was no period over which to evaluate the proposition that CPI-based price increases would be sufficient to offset carefully managed Postal Service costs.

After FY 2006, and after taking on billions in debt in an ultimately vain effort to make the annual "prefunding" payments, Postal Service finances never reached anything near positive results despite an "exigent" price increase predicated on business losses from the Great Recession, later implementation of the "retirement" "adder," and other periodic price filings.

However, despite these circumstances, aggressive cost control measures were not concurrently adopted to moderate expenses, nor were regulatory changes sought to retain mail volume.

B.Self-sufficiency

The Postal Service's leadership changed in June 2020 and, along with that, the emphasis on finances narrowed. A 10-Year Plan released March 23, 2021, by new Postmaster General Louis DeJoy projected that the Postal Service would lose $160 billion over the Fiscal Year 2021 through 2030 period. To avoid this, he proposed initiatives in four areas that would, by increasing revenue, lowering costs, and gaining legislative or regulatory relief, enable generation of the necessary $160 billion (in revenue or savings) over The Plan's 10-year span. Establishing not just financial stability, but financial self-sufficiency, became a cornerstone objective of the PMG as he prosecuted his Plan, doing so without ordering visibly effective measures to control cost or maintain service.

The PMG also criticized the PAEA ratemaking system, considering it "defective" and a constraint on the Postal Service's ability to generate revenue. As most recently expressed at the 2024 National Postal Forum, his opinion favors a pre-PAEA cost-of-service model that always provides sufficient revenue to cover costs, (but that does nothing to encourage control of those costs). Conversely, he blames the PAEA ratemaking system for providing insufficient funds:

> "When product volume and reimbursable revenue changed, so that its cost to provide these services could not be covered, [the USPS] was unable to adjust its service in a meaningful way to reduce its cost of operations. ..."

C.Congressional actions

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in response to the COVID-19 pandemic. That legislation authorized up to $10 billion in funding for the Postal Service should it determine that it would be unable to fund operating expenses due to the then-ongoing pandemic. In December 2020, Congress amended the CARES Act to remove the Postal Service's obligation to repay the funding. From March through July 2021, the Postal Service submitted five requests for funding, drawing the entire $10 billion.

In January 2022, the Postal Service signed an interagency agreement with the US Department of Health and Human Services and received an advance payment of $1.035 billion for services related to the storage, transportation, ordering, packing, distribution, and delivery of COVID test kits that would be provided free to the public. Total Postal Service costs and revenue related to this program, and to a second round of test kit distribution in 2023, have not been detailed.

On April 6, 2022, the President signed the *Postal Reform Act of 2022* which, among other things, canceled the PAEA mandate to "prefund" retiree costs through a series of annual payments totaling $55.8 billion; unmade prior payments and future obligations were voided. Though this largely eliminated the debts that motivated provision of the "retirement" "adder," the PRC noted that "[t]he other components of the total amortization payment – specified payments to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) – remain unaffected by the PSRA."

On August 16, 2022, the President signed the *Inflation Reduction Act* which, among other things, provided the Postal Service with $3 billion to partly offset the cost of battery-powered delivery vehicles.

Though these Congressional measures supplied the Postal Service with over $14 billion is non-postage revenue, and relief from at least $55.8 billion in funding obligations, they did not result in noticeable or reported reduction of the cost burden otherwise passed to ratepayers through price increases, nor did they alter the projections of the Postmaster General's 10-Year Plan or lessen his pursuit of maximum price increases twice per year.

(Separately, but not without potential significance, the Postal Service and others dispute the existence, and the true size, of the remaining CSRS and FERS liabilities. Resolution of that issue could justify (or eliminate) billions in liability amortization payments currently being assessed on the Postal Service.)

D. Volume decline

Market-dominant mail volume fell steeply over the fourteen postal quarters from late calendar 2020, immediately before Order No. 5763 took effect, through early calendar 2024 (Postal Quarter I/Fiscal Year 2021 through Postal Quarter II/Fiscal Year 2024). According to the Postal Service's *Revenue, Pieces, and Weight* data, filed quarterly with the Commission, total market-dominant mail volume fell 23.52%, from 34.493 billion pieces in PQI/FY 2021 to 26.379 billion pieces in PQII/FY 2024. Though some of the volume loss may be attributed to business declines related to the pandemic, the Postmaster General attributes the loss to "secular decline" and electronic diversion. Officially (as in its *Form 10-Q* for PQII/FY2024) the Postal Service claims "the on-going migration from mail to electronic communication and transaction alternatives," "commercial mailers' increasing use of digital and mobile advertising," and the movement of "a significant portion" of content to electronic media as factors impacting volume.

While the pandemic and diversion inarguably adversely impacted hard-copy mail, nowhere does the PMG or the agency acknowledge that the pace and size of price increases over 35 months also could be a factor in the decisions of ratepayers, particularly high-volume senders of bills, statements, advertisements, and publications, that the Postal Service (in its own words, above) knows have alternative channels to reach their customers.

Though it may be challenging to isolate and measure separately the potential factors impacting volume loss, many observers have asserted that, regardless, the Postal Service itself has been unable to meaningfully evaluate the impact of a price increase on mailer behavior before it begins work to file (or implements) another. The absence of such data in price change filings has not, thus far, been called into question by the Commission, at least not to a degree sufficient to remand or reject a filing.

Though the Postal Service has sought, and the Commission has approved, various promotions and incentives to build or retain First-Class Mail or Marketing Mail volume, the Postmaster General has commented publicly that he does not believe the decline in hard-copy mail can be impeded and so he is "not going to chase it." It is unknown how, internally, the Postal Service has managed the inherent conflict between the Postmaster General's attitude toward hard-copy mail; his aggressive pursuit of revenue; and his focus on developing competitive product volume, and specific measures to increase market-dominant mail volume through incentives and promotions.

It is doubtful that the PAEA was meant to implement a ratemaking process that was explicitly or implicitly agnostic regarding mail volume growth or retention; such indifference would not have been consistent with the law's larger purpose or the future viability of the Postal Service. Therefore, regulations implementing the PAEA ratemaking process should not enable the unrestrained extraction of revenue from market-dominant mail. Rather, revenue-enabling provisions should be balanced with others designed to commensurately foster increasing, or at least retaining, market-dominant mail volume.

E. Persistent costs

Before the arrival of the current Postmaster General, others had produced short- and long-term plans (as required by 39 USC 2802 *et seq.*), but economic or other circumstances often thwarted their full implementation. For example, realignments of the processing network were started in the early 2010s but largely abandoned by 2015 in the face of opposition from politicians and labor groups. Meanwhile, other potentially necessary cost-reduction measures were not taken; for example, labor agreements continued to contain provisions that maintained costs – such as regular cost-of-living increases, limitations on schedule and work assignment changes, and a ban on complement reduction by lay-off.

Postal Service costs increased less than inflation over the PQI/FY2021-PQII/FY2024 period, but were not reduced anywhere near proportional to declining mail volume. As reported on *Form 10-Q* for each period, operating revenue, operating expenses, "controllable expenses" (e.g., less "prefunding," retirement benefits, and workers' compensation costs), and mail volume for the periods were:

Period	Operating Revenue	Operating Expenses	"Controllable" Ex-penses	Mail Volume	CPI
PQI/FY2021	$21.495	$21.147	$18.434	36.585	260.388
PQII/FY2024	$19.712	$21.285	$18.521	28.011	306.746
Change	-8.29%	+0.65%	+0.47%	-23.44%	+17.80%

Had "controllable expenses" been managed to decrease by just *half* the decrease in volume over the period, the result would have been "controllable expenses" of $16.274 billion in PQII/FY2024, $2.247 billion less than the actual amount, and total operating expenses ($19.038 billion) that would have been more than covered by total actual revenue. Therefore, though the Postmaster General often claims the USPS is constrained by a "defective pricing model" (i.e., the PAEA ratemaking system, as modified by Order No. 5763), the current ratemaking system would have provided sufficient pricing authority to cover operating expenses over the period had "controllable expenses" been reduced by *half* the decline in mail volume.

An example of a cost that was not reduced would be complement, based on figures from the Postal Service's monthly *Preliminary Financial Information (Unaudited)* filings with the Commission for October 2020 and March 2024, the beginning and ending months of the PQI/FY2021-PQII/FY2024 period:

Month	Total Complement	Career Employees	Non-career Employees
October 2020	643,318	495,230	148,088
March 2024	645,075	531,322	113,753
Change	+0.273%	+7.288%	-23.186%

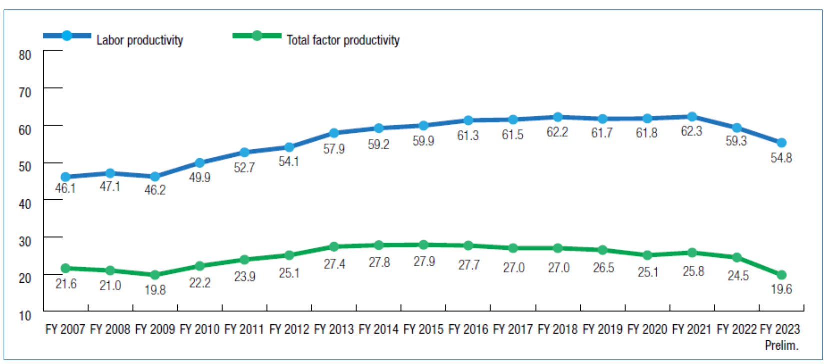
As shown in the table above, not only was complement not reduced in line with volume, the related costs were actually made more persistent by the conversion of lower cost, flexible-schedule, non-career workers to higher cost, fixed-schedule, career status.

Consistently, the Postal Service prefers the easier path – repeatedly tapping ratepayers – to the more challenging task of dealing with politicians and labor groups to implement cost reduction measures. By its November 2020 decision, the Commission essentially enabled this behavior to continue.

Even if the Postal Service asserts that it's the prerogative of USPS management to determine complement, employee status, and proffers in labor negotiations, as well as how to manage costs generally, the PAEA ratemaking system, regardless of how it may be modified, should not provide the Postal Service with a means to compensate it for its failures to control costs.

F. Decreasing productivity

Though the language of Objective 1 of the PAEA's ratemaking system ("To maximize incentives to reduce costs and increase efficiency") does not include the term, arguably increasing efficiency includes improving the use of resources for better productivity. In this regard, the PAEA ratemaking system, as modified by Order No. 5763, has failed, as reflected by reported Postal Service productivity.



The chart above is from the Postal Service's *FY 2023 Annual Report to Congress* (page 58) and clearly illustrates that FY 2023 "labor productivity" was the lowest since FY 2012, and that "total factor productivity" was lower in FY 2023 than for any other year on the chart (i.e., since at least FY 2007). The decline of both measures has worsened since FY 2021. Though decreased mail volume likely contributed to these declines to some degree, the Postal Service's failure to reduce labor proportionally should not be set aside. As was noted above regarding labor costs, the PAEA ratemaking system, regardless of how it may be modified, should not provide the Postal Service with a mechanism to be compensated for failures to improve productivity or manage labor costs.

G. Less than expected revenue

Revenue from market-dominant mail has not increased as the size of the Postal Service's price filings would anticipate. Total market-dominant revenue in July 2021, the month before the first price increase under the 10-Year Plan, was $3.3504 billion; in May 2024, the latest month for which data is available, total revenue was $3.6363 billion, an increase of $.2859 billion, or 8.53% – about half of the increase that was enabled by CPI-based pricing authority alone (15.944%), and about one-third of the total pricing authority (24.868%) available for the five price increases that took effect over the period. Had revenue grown in proportion to the total pricing authority used, total market-dominant revenue in May 2024 would have been $4.1836 billion, $.5473 billion, or 91.43%, more than was actually realized.

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Of course, much of the difference can be attributed to decreased volume; according to the corresponding monthly data reported to the Commission, total mail volume in July 2021 was 10.1339 billion pieces, but only 8.6045 billion pieces in May 2024, 15.092% less. While revenue per-piece rose from $0.3306 to $0.4226 over the period, that figure is misleading because volume had declined at a pace nearly twice the rate at which revenue grew, suggesting that the expected benefit of semi-annual price increases was being substantially offset by decreased volume.

As noted earlier, many factors can impact mail volume, and, in turn, revenue, but the juxtaposition of price increases nearing 25%, volume declines of more than 15%, and revenue improvement of about half the potential amount, collectively suggest that something in the ratemaking system, or in the usage it has enabled, is not reflective of the Commission's expectations in November 2020.

Further, as noted earlier, it is unknown whether the Postal Service is able to fully assess the impact of a semi-annual price increase before planning another. Therefore, any modification to the PAEA ratemaking process should not enable ratemaking practices that, by operation if not design, fail to require the Postal Service to demonstrably understand the effect on ratepayer behavior, volume, and service from a price increase on market-dominant products before filing another.

A desirable pricing strategy, or one enabled by the PAEA ratemaking system under any modification, would not be to anticipate net revenue from a price increase that's considerably less than the nominal size of the increase would suggest, because of the volume loss that it precipitates. More modest price increases that don't drive volume loss might actually yield (or preserve) more revenue benefit over time.

H. Foregone appropriations

The Postal Service has left money on the table annually by failing to claim funds available from Congressional appropriations. For example, in its *Fiscal Year 2025 Budget Congressional Submission*, filed March 11, the USPS noted that

> "For public service costs, 39 USC §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department's Fiscal Year 1971 appropriation. This amounts to $460,000,000, however section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero."

The Postal Service then adds

> "The Postal Service has operated without this appropriation since Fiscal Year 1982, therefore, no appropriation for public service costs is requested during Fiscal Year 2025."

While such a decision might have been acceptable over the years of cost-of-service ratemaking, or in the few years when the agency was not in debt, it's incongruous to decry a potential loss of $160 billion over ten years in the PMG's 10-Year Plan but then forego what would be $4.6 billion over the same period. Though $460 million may seem small in the context of total USPS revenue, it's still equivalent to all Periodicals revenue for the first half of Fiscal Year 2024.

Though not accepting the annual appropriation may be within "management's purview," it directly impacts the amount of revenue that must be generated by the PAEA ratemaking process, regardless of any modification, and, accordingly, is germane to that process and its operation.

I. Inaccurate projections

Postal Service revenue projections have been shown to be inaccurate, raising the potential for errors in subsequent estimates of revenue needs (such as from prices on market-dominant mail). For example, the table below compares estimates in the 10-Year Plan (what it forecast without and with the steps outlined in The Plan) to elements of the annual *Integrated Financial Plan* and, lastly, to actual results.

Fiscal	Without a Plan (Projected)			10-Year Plan (Projected)			IFP (Projected)			Actual		
Year	Revenue	Expenses	Result	Revenue	Expenses	Result	Revenue	Expenses	Result	Revenue	Expenses	Result
2021	$79.9	$76.5	-$9.7	$71.1	$76.5	-$9.4	$70.9	$80.6	-$9.7	$77.0	$81.8	-$4.9
2022	$68.8	$76.3	-$11.7	$71.3	$72.2	-$2.0	$77.5	$85.9	-$8.4	$78.6	$79.6	-$1.0
2023	$69.7	$77.8	-$12.3	$73.7	$72.4	$0.0	$81.2	$85.7	-$4.5	$78.4	$85.4	-$6.5
2024	$70.7	$79.2	-$13.1	$75.5	$72.6	$1.7	$81.7	$88.0	-$6.3			

As can be seen, though the same financial sources contributed to the 10-Year Plan's projections and to the annual IFPs, the differences in the estimates are significant, both between The Plan and the IFPs and between both and actual results. Though many factors may contribute to the difficulty in projecting revenues and expenses, variability such as exemplified above does not engender confidence. Having reliable forecasts of revenue, expense, and ratepayer behavior are especially important for an institution whose leadership has decided to overcome an expected $160 billion shortfall and achieve self-sufficiency primarily by imposing prices increases on ratepayers well-equipped to move their messages out of the mail.

Though the PAEA does not address the mechanics of the ratemaking process, it might be prudent for the Commission's regulations for reviewing Postal Service price filings to include steps to evaluate the reliability and accuracy of USPS cost and revenue projections insofar as they impact the revenue anticipated from proposed increased prices.

J. Declining service

The PAEA clearly intended that its ratemaking system would foster the provision of excellent service, as demonstrated by Objective 3: "To maintain high quality service standards established under section 3691" (as revised by Title III of the PAEA).

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However, on April 21, 2021, the Postal Service filed a request for an advisory opinion with the Commission regarding proposed revisions to the service standards for First-Class Mail and end-to-end Periodicals (N2021-1). The USPS proposal was predicated on its conclusion that

> "… the current service standards do not reflect the declines in mail volume, and make it very difficult for the Postal Service to provide reliable and consistent service; this is evidenced by the fact that the Postal Service has consistently failed to achieve its service performance targets. In addition, attempting to meet the current standards results in high costs and inefficiencies in the transportation network, which is characterized by an over-reliance on air transportation and low utilization of truck capacity in long-haul surface transportation.
>
> "By allowing for additional transport time for the affected mail classes, these changes will improve the Postal Service's consistency and reliability from a service performance perspective, as well as increase the efficiencies of the transportation network, for a number of related reasons. These changes would enable an increase in the amount of volume transported by surface and a decrease in the amount of volume transported by air for many OD Pairs; surface transportation is both more reliable and cost-effective than air transportation."

In the filing, the Postal Service claimed it was unable to meet long-established service standards, but never explained the reasons for that assertion or why better processing and transportation discipline wasn't a viable alternative to implement first, before lowering the standards. It also didn't explain why "high costs and inefficiencies in the transportation network" were not corrected before summarily concluding that the problem was that the service standards themselves were simply unattainable.

In hindsight, it can be seen that the filing reflected the PMG's focus on his elements of "efficiency," his fixation on "full trucks," and his bias for ground transportation. Allegations that the reduced service standards would result in consistent achievement of those revised standards were presented as foregone conclusions. Ultimately, notwithstanding the input from commenters or the recommendations of the Commission, the Postal Service adopted the revised standards as it had planned.

Although the PAEA ratemaking process, as modified by Order No. 5763, provided the Postal Service with funds "to maintain high-quality service standards," the USPS has instead eased its performance standards, allowed the quality of its service to decline, moved more mail onto slower ground transportation, and sanctified it all as making itself more "efficient." Even now, service performance is inconsistent, even against the annual standards the USPS has set for itself since 2021.

Summary of National-Level Service Performance – FY 2021-2024

Targets	Presorted First-Class Mail										Marketing Mail						Periodicals	
FY 21	93.99% overnight, 89.20% 2-day, 84.11% 3-to-5-day										86.82%						86.62%	
FY 22	94.75% overnight, 93.00% 2-day, and 90.5% 3-, 4-, & 5-day										91.84%						82.67%	
FY 23	95.00% overnight, 93.52% 2-day, and 92.0% 3-, 4-, & 5-day										93.64%						85.75%	
FY 24	95.00% overnight, 95.00% 2-day, and 93.00% 3-, 4-, & 5-day										94.62%						87.29%	
	Quarter					Year-to-Date					Quarter			Year-to-Date			Qrtr	Yr/Dt
	Over-night	2-Day	3-day	4-day	5-day	Over-night	2-Day	3-day	4-day	5-day	Over-all Ltrs	Over-all Flts	Over-all CR	Over-all Ltrs	Over-all Flts	Over-all CR	Com-bined	Com-bined
PQ I/21	91.6	85.0	78.3			91.6	85.0	78.3			85.9	69.1	81.9	85.9	69.1	81.9	69.5	69.5
PQ II/21	93.1	85.1	74.0			92.4	85.1	76.2			86.9	66.9	82.0	86.3	68.0	82.0	70.9	70.1
PQ III/21	95.5	92.4	86.2			93.4	87.4	79.4			92.2	76.9	89.6	87.4	69.5	82.8	78.2	72.7
PQ IV/21	94.8	92.5	87.2			93.7	88.5	81.0			94.2	82.7	92.4	89.5	72.5	85.1	82.2	75.0
PQ I/22	95.0	92.4	87.2	91.8	96.5	95.0	92.4	87.2	91.8	96.5	93.1	81.4	91.3	93.1	81.4	91.3	80.3	80.3
PQ II/22	94.3	92.3	86.0	86.8	94.2	94.7	92.3	86.6	89.3	95.3	93.0	81.7	93.0	93.1	81.5	91.8	81.1	80.7
PQ III/22	95.6	94.7	93.0	94.5	97.3	95.0	93.1	88.6	91.0	96.0	95.8	86.5	95.1	94.0	83.0	92.7	86.4	82.4
PQ IV/22	95.5	94.5	93.3	94.3	95.9	95.1	93.4	89.7	91.8	95.9	95.8	88.1	95.1	94.4	84.3	93.3	86.6	83.3
PQ I/23	94.4	93.1	91.2	92.2	93.4	94.4	93.1	91.2	92.2	93.4	95.0	85.5	93.6	95.0	85.5	93.6	84.4	84.4
PQ II/23	94.9	93.9	92.0	91.6	91.1	94.6	93.5	91.6	91.9	92.2	95.9	88.1	94.3	95.4	86.6	93.9	86.3	85.2
PQ III/23	95.3	94.4	93.4	94.0	91.3	94.8	93.8	92.2	92.6	91.9	97.0	91.3	95.6	95.9	88.0	94.3	88.7	86.5
PQ IV/23	95.2	93.9	92.3	92.6	90.2	94.9	93.8	92.2	92.6	91.5	96.6	89.9	94.7	96.0	87.9	94.4	85.8	86.3
PQ I/24	94.1	91.4	86.6	94.1	91.4	94.1	91.4	86.6	94.1	91.4	95.3	85.1	91.9	95.3	85.1	91.9	80.3	80.3
PQ II/24	93.0	91.4	84.8	85.5	77.2	93.5	91.4	85.7	87.0	79.1	94.7	84.7	93.0	95.0	84.9	92.3	83.9	82.1

The chart above is derived from service performance data filed quarterly with the Commission. The figures in red show *national-level* service scores that are below the established targets. It should be noted that, to be represented in these scores, mail must bear an intelligent mail barcode and not be excluded from measurement for any of fifteen reasons identified by the Postal Service. According to USPS data filed with the Commission, in PQII/FY2024, the latest quarter for which data is available, measured service performance included only 63.81% of First-Class Mail (all of which was Presort First-Class Mail), 72.37% of Marketing Mail (nearly all of which was destination-entered), 51.60% of Periodicals, and 23.44% of Package Services (all Bound Printed Matter flats, mostly destination-entered).

Moreover, service performance varies widely across the fifty Postal Service districts, with those in the west generally performing better. As shown below, most districts failed to achieve FY 2024 service standards for the most recent quarter, with none achieving the standards for 4- and 5-day committed First-Class Mail – the mail being transported the longest distance, and likely now being moved by more "efficient" ground transportation.

District Target Achievement % by Area Between 01/01/2024 and 03/31/2024 (PQ II/FY 2024)

	Presorted First-Class Letters/Postcards										Marketing Mail					
	Quarter					Year to Date					Letters (Overall)		Flats (Overall)		Car Rte (Overall)	
Area	O'night	2-Day	3-Day	4-Day	5-Day	O'night	2-Day	3-Day	4-Day	5-Day	Qtr	Yr to Dt	Qtr	Yr to Dt	Qtr	Yr to Dt
Atlantic	33.3	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	83.3	75.0	0.0	0.0	33.3	25.0
Central	8.3	0.0	0.0	0.0	0.0	16.7	0.0	0.0	0.0	0.0	58.3	58.3	0.0	0.0	33.3	33.3
Southern	38.5	16.7	0.0	0.0	0.0	30.8	25.0	0.0	7.7	0.0	38.7	38.7	0.0	0.0	38.7	7.7
WestPac	76.9	75.0	50.0	0.0	0.0	61.5	66.7	50.0	0.0	0.0	92.3	84.6	7.7	7.7	84.6	62.6
Nation	*40.0*	*22.9*	*12.5*	*0.0*	*0.0*	*34.0*	*25.0*	*12.2*	*2.0*	*0.0*	*68.0*	*64.0*	*2.0*	*2.0*	*48.0*	*32.0*

Therefore, despite its 2021 assurances that reduced service standards would result in consistent achievement of those standards, that hasn't happened. Similarly, as much as the PAEA ratemaking system, as modified by Order No. 5763, may have enabled the USPS to generate additional revenue, neither the original system nor its modifications have been successful in driving "high-quality service."

III. IMPLEMENTATION OF THE MODIFIED RATEMAKING SYSTEM

Despite criticizing the PAEA ratemaking system, as modified by Order No. 5763, Postmaster General Louis DeJoy has nonetheless sought to maximize its revenue-generating potential. Over the period from May 2021 through April 2024, the Postal Service exercised its pricing authority under the PAEA ratemaking system, as modified by Order No. 5763, by filing six price changes totaling between 32% and 33% for First-Class Mail, Marketing Mail, and Special Services, but over 36% for Package Services, and over 41% for Periodicals. Because of a sharp rise in the Consumer Price Index from March 2021 through November 2022, a total of 17.566% in calculated CPI-based pricing authority was available for the six price filings, but the remainder was provided by the "adders."

To the extent that Order No. 5763 was meant to enable the generation of additional pricing authority for the Postal Service, it worked, approximately doubling the pricing authority provided by the CPI alone. However, as noted above, this apparent success did not yield as much actual revenue as might have been anticipated, nor did it operate in a vacuum, without consequences that may not have been fully anticipated by the Commission in November 2020 – and that the Postal Service has since failed to acknowledge or adopt pricing policies to moderate.

Of the three "adders," the most problematic is "density." Of the approximately 32.6% in total pricing authority available to the Postal Service since the Commission's final rule was implemented, the "density" "adder" represents 6.019%, about one-fifth. However, even if its role in total pricing authority is relatively small, the perversity of its operation is significant.

By all accounts, the consensus among commercial ratepayers about the "density" "adder" is consistent with some prescient comments made during the 2017-2020 rulemaking. As reported by the Commission in Order No. 5763,

> "ABA objects to the proposed density-based rate authority on the grounds that resulting price increases will result in volume declines and be counterproductive. ... ANM et al. point out that a large feedback effect resulting from year-over-year rate increases is inherent in the density formula. ... NPPC describes the density-based rate authority as discouraging volume growth and creating a death spiral."

The Commission rejected these arguments, stating in part

> "… [T]itle 39 provides that as a general matter, if products are particularly price sensitive, such that potential price increases could cause significant customer flight, the correct regulatory response is lighter price regulation, not more. Even if commenters opposing the cap modification were correct in their arguments regarding price sensitivity, their proposed solution is inconsistent with the regulatory approach of title 39. (In contrast, section 3642 provides for heavier price regulation where products have captive customers, i.e. when a significant price increase, quality decrease, or reduced offering does not result in a significant loss of business to other firms offering similar products, for example). In the Commission's experience, demand for Market Dominant products has been relatively price inelastic in both the pre-PAEA period and the PAEA period. Accordingly, the decrease in volume induced by the density-based rate authority is expected to be less in proportional terms than the amount of density-based rate authority."

As noted above, when it adopted its final rule in November 2020, the Commission likely assumed that whatever added pricing authority thus provided the Postal Service would be used carefully, mindful of how over-CPI increases would impact ratepayer behavior and mail volume. Similarly, the Commission probably did not foresee a Louis DeJoy who's notion of the "judicious" use of pricing authority was to use all that there was available. Equipped with the "density" "adder," he has been able to increase prices more because higher prices are – to some degree – driving away volume, generating more rate authority along the way. Whether a "death spiral" or not, the effect of the "adder" has been to accelerate the loss of volume and, in turn, increase its own value as a source of added rate authority.

Few observers would believe the Commission intended to tell the Postal Service, in effect, "if you use your pricing authority to drive away volume, we'll give you more pricing authority." As the "density" "adder" is operating, however, the cycle of higher prices, consequential volume loss, and increased resulting pricing authority enabled by the "adder," is doing just that; such a result is illogical and counter-productive to the purposes of the PAEA and its ratemaking system.

Meanwhile, the "retirement" "adder" remains in place, now to amortize shortfalls in the Postal Service's accounts under CSRS and FERS. Though the adequacy of both accounts remains in question, depending on which calculation methods are used and by whom, the long-term resolution of the debate is not under the control of either the USPS nor the Commission. Nonetheless, it should not be assumed that, with reasonable cost controls in place for what the Postal Service defines as "controllable" expenses, the amortization payments would be infeasible without the "adder."

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If the Commission of 2016 can be faulted for overemphasizing achievement of Objective 5, doing so without adequately considering the potential impact of the "adders" on volume and service, the Postal Service (i.e., the Postmaster General's policies) can be faulted for over-emphasizing the generation of revenue (to become "self-sufficient") without adequately considering the consequences of that pursuit.

Unfortunately, the current PAEA ratemaking system, as modified by Order No. 5763, enables such a single-minded pursuit of increased revenue without requiring equal emphasis on cost reduction and service maintenance.

IV. SUGGESTED REVISIONS TO THE RATEMAKING SYSTEM

A. Success and failures

With the foregoing in mind, it is our assertion that the Commission's award of additional pricing authorities in Order No. 5763 resulted from a disproportionate focus on enabling achievement of the PAEA's Objective 5, USPS financial stability. As history has shown, while the "adders" have enabled the generation of additional revenue, beyond what the CPI alone would have done, they also have

- contributed to aggressive and, we believe, harmful price increases;
- done nothing to motivate the Postal Service to reduce spending, control costs, become more efficient, increase labor productivity, or maintain – let alone improve – service;
- allowed definition of the retirement fund balances to remain unresolved; and
- enabled the continued belief that funding the costs of the Universal Service Obligation will always be feasible through postage rates alone.

Indeed, given that the focus was on Objective 5, the modified ratemaking system established by Order No. 5763 has not resulted in achievement of the PAEA's Objective 1 ("To maximize incentives to reduce costs and increase efficiency"), Objective 2 ("To create predictability and stability in rates"), or Objective 3 ("To maintain high quality service standards").

Moreover, the emphasis of the modified ratemaking system established by Order No. 5763 inadequately considers Factor 1 ("the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery"), Factor 3 ("the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters), Factor 4 ("the available alternative means of sending and receiving letters and other mail matter at reasonable costs), and Factor 12 ("the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services").

B.Recommendations

Responding to Order No. 7032, in which the Commission requests input about possible changes to the PAEA ratemaking process, as modified by Order No. 5763, we offer the following recommendations:

(1) Regardless of what changes could be made to the PAEA ratemaking system, as modified by Order No. 5763, it should be determined that the *original* system, i.e., CPI-based rate authority alone, is in fact inadequate to enable the Postal Service to cover its "controllable" operating expenses if, concurrently, measures are in place to reduce spending, manage costs, become more efficient, increase labor productivity, and improve service performance.

As noted earlier, the "living within your means" proposition has never been tested and, therefore, has always been presumed infeasible. As the record since 2020 has shown, the argument that simply providing additional revenue would solve the Postal Service's financial woes not only has not been validated, but rather has served to perpetuate the Postal Service's failure to adopt meaningful cost controls, and has not discouraged it from implementing actions that harmed service.

Therefore, before assuming the Postal Service's need for over-CPI pricing authority, we urge the Commission to first determine the actual revenue need after adoption of cost saving and efficiency measures to reduce "controllable expenses" that can be reasonably expected of the Postal Service.

(2) Commission rules should enable it to require the Postal Service to explain, document, validate, and (as necessary) revise its forecasts for revenue, volume, and cost so that related revenue demands placed on ratepayers can be determined more transparently, accurately, and reliably.

(3) To foster achievement of Objective 2 ("create predictability and stability in rates" and Objective 6 ("reduce the administrative burden and increase the transparency of the ratemaking process"):

(a) CPI-based pricing authority should be available only on an annual or longer basis (i.e., for a filing made twelve or more months after a preceding filing);

(b) Any modification to the PAEA ratemaking process should require the Postal Service to demonstrate evaluation of the effect on ratepayer behavior, volume, and service from a previous price increase on market-dominant products before filing another; and

(c) A price filing should not be allowed until at least thirty days after the issuance of the Commission's *Annual Compliance Determination*, both to increase the opportunity for the Postal Service to understand the impact of a previous price filing on volume and service, and to ensure that directives and recommendations made in the *ACD* are appropriately reflected in the filing.

(4) Any supplemental pricing authority, applicable equally to each class of market-dominant mail, should be linked to the continued achievement of specific, measurable standards for cost reduction, labor productivity, and service performance:

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(a) Using a formula to be determined by the Commission, additional pricing authority would be provided based on the total quantifiable cost reductions in Postal Service "controllable" operating expenses (other than compensation and benefits), verified by the Commission, during the preceding fiscal year. No reductions would result in no additional pricing authority.

(b) Using a formula to be determined by the Commission, additional pricing authority would be provided based on the total quantifiable cost reductions in Postal Service "controllable" compensation and benefits expenses, verified by the Commission, during the preceding fiscal year. No reductions would result in no additional pricing authority.

(c) A variable amount of added *or decreased* pricing authority would be determined based on changes in Postal Service productivity, using a measurement system specified by the Commission, during the preceding fiscal year.

(d) A variable amount of added *or decreased* pricing authority would be applied to each class of market-dominant mail based on changes in USPS service performance for that class of mail, based on service standards, and using a measurement system, specified by the Commission, during the preceding fiscal year.

(e) Pricing authority would be reduced to the extent the Postal Service declines the annual public service appropriation contained in the federal budget for the preceding fiscal year.

(f) To encourage the Postal Service to increase the use of incentives and promotions to build or retain market-dominant mail volume, the "bank" of available pricing authority for use in a price adjustment filing would be increased to recover a portion of the actual revenue forgone as a result of promotions and incentives in previous filings, using a formula specified by the Commission.

(4) Using a formula to be determined by the Commission, the current "non-compensatory" "adder" would be included in the pricing authority determined under 4(a)-(f), above, to encourage cost reduction and improved efficiency in processing the corresponding class or category of mail.

(5) Additional pricing authority would *not* be provided to cover the retirement fund balances ("uncontrollable costs") until those are conclusively defined. Generation of additional revenue from ratepayers to make further amortization payments simply enables resolution of the actual obligations to be deferred.

V. CONCLUSION

We appreciate the Commission's decision to initiate the statutory review of the PAEA ratemaking system earlier than otherwise planned (in 2025). We urge the Commission to issue a final rule as soon as the rulemaking process will enable.

As mentioned earlier, it may not be feasible to identify the many individual and inter-related external factors impacting ratepayer behavior, but the experience of commercial mail producers – who can observe ratepayer decisions first-hand – strongly supports the existence of a clear and direct connection between immoderate price increases and reductions in the use of hard-copy mail, especially when such increases are imposed while service performance worsens.

We realize that the Postal Service is experiencing an evolving business environment to which it must respond within its statutory, regulatory, and contractual boundaries, but the PAEA's ratemaking process after any modifications should not enable the Postal Service:

- To pursue revenue generation without offsetting measures to manage cost, improve productivity, provide consistent quality service, and mitigate volume loss; or
- To adopt self-defeating pricing or service policies that alienate customers or diminish fulfillment of its primary and fundamental role as a public *service*.

We believe the Postal Service and the Commission must work to pursue statutory changes to ameliorate the externally-imposed cost-drivers that neither the USPS nor the Commission can control itself and which cannot be equitably resolved simply by increasing revenue. We also believe that the costs related to the agency's fundamental purpose and function, as expressed in its Universal Service Obligation, are increasingly unsupportable by revenue from commercial mail users – the majority of the ratepaying community, whose clients have easily-available alternatives to the mail. Accordingly, though not within the scope of this rulemaking, we believe that, absent the removal of cost-drivers that neither the USPS nor the Commission can control, or changes to its USO mandates, some form of public funding and/or significant lessening of public service obligations (and costs) will inevitably be necessary, and we urge the Commission to lead the dialogue to prepare for that eventuality.

Respectfully submitted,
/s/

Leo Raymond
Mailers Hub
108 Brafferton Blvd.
Stafford VA 22554-1514
(703) 831-3151
lraymond@mailershub.com