



Postal Regulatory Commission

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Press Release

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PRC Assesses Pricing and Service Performance in FY 2015 Annual Compliance Determination

PRC identifies failures with service performance and problems with flat-shaped mail

Washington, DC – The Postal Regulatory Commission (Commission) today issued its statutorily mandated *Annual Compliance Determination* (ACD) assessing the Postal Service’s compliance with pricing and service performance standards in fiscal year (FY) 2015. The most pointed critiques identified in this year’s ACD relate to service performance generally, and cost and service problems with flat-shaped mail (flats).

Failures in Overall Service Performance:

The majority of products failed to meet service performance targets for FY 2015. In particular, service performance results for all First-Class Mail products did not meet their targets. The Commission determined that First-Class Mail Single-Piece Letters/Postcards were not in compliance in FY 2015, and directs the Postal Service to improve service performance and provide a comprehensive plan within 90 days.

Cost and Service Problems with Flat-Shaped Mail:

In its FY 2014 ACD, the Commission issued directives to the Postal Service for products comprised of flats to improve service performance results during FY 2015 or explain why efforts to improve performance were ineffective and identify further planned changes to improve those results. This year’s review of flats shows results for these products remained substantially below their targets, and in all but one case, the performance results declined. In FY 2015 the attributable costs of two products consisting of flats, Outside County Periodicals and Standard Mail Flats, combined to exceed revenues by over \$1 billion. The ACD further notes that the Postal Service’s related efforts to improve flats performance and profitability are ongoing. As a result, the Commission requires the Postal Service to provide a report on flats issues within 120 days that quantifies what the Commission understands to be the main drivers of these significant and ongoing service failures and cost issues. The Commission will evaluate the report and may use the information provided to form the basis for establishing a new proceeding or other appropriate action.

Other Principal Findings:

- Twenty-four workshare discounts did not comply with section 3622(e) because they exceeded avoided costs and did not qualify for a statutory exception. Workshare discounts that exceed avoided costs adversely affected Postal Service finances by incenting mailers to perform worksharing that the Postal Service could have done on a less costly basis. The Commission took no action for four of the workshare discounts because the removal of the exigent surcharge will align discounts with avoided costs. The Commission did, however, direct the Postal Service to address the 20 workshare discounts that remain out of compliance by aligning discounts in the next Market Dominant price adjustment or identifying an applicable statutory exception.
- The ACD further specifies that the Postal Service failed to meaningfully address Commission FY 2014 directives related to the Periodicals class. As a result, the Commission issues further directives requiring the Postal Service to file a report within 120 days outlining the cost and contribution impact of worksharing offered for 5-Digit and Carrier Route presortation and progress made in improving pricing efficiency.
- Seven noncompensatory Market Dominant products are identified: Periodicals In-County, Periodicals Outside County, Standard Flats, Standard Parcels, Media Mail/Library Mail, Inbound Letter Post, and Stamp Fulfillment Services. With respect to Periodicals In-County, Periodicals Outside County, and Standard Flats, the Postal Service is directed to provide additional information regarding costs within 120 days. For Inbound Letter Post, the Commission recommends that the Postal Service continue to develop a more compensatory Universal Postal Union terminal dues formula for the next rate cycle (CY 2018 through CY 2021) and pursue bilateral agreements with foreign postal operators that result in an improved financial position for the Postal Service. The Commission finds that the Postal Service is taking the appropriate steps to improve cost coverage for the remaining noncompensatory products.
- Revenues for six competitive products: Priority Mail Contract 135; Parcel Return Service Contract 8; International Money Transfer Service (IMTS)—Inbound; IMTS—Outbound; Inbound Parcel Post (at UPU rates); and Inbound Air Parcel Post (at non-UPU rates) failed to cover attributable cost and therefore did not comply with section 3633(a)(2). The Commission directs the Postal Service to take corrective action.
- The number of facilities under suspension increased by 80 locations from the end of FY 2014 to the end of FY 2015. The Commission requires the Postal Service to reduce the number of facilities under suspension in FY 2016 or provide a detailed explanation in its FY 2016 *Annual Compliance Report* discussing why it was unable to do so.

As directed by statute, the ACD was prepared after a 90-day review of the Postal Service's 2015 *Annual Compliance Report* and supplemental material, and evaluation of public comments.

The full report, including an executive summary, is available at www.prc.gov.