



Postal Regulatory Commission

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Press Release

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PRC Evaluates Postal Service Compliance with Pricing and Service in FY 2020 Annual Compliance Determination

Washington, DC – Today, the Postal Regulatory Commission (Commission) issued its 2020 [Annual Compliance Determination](#) (ACD) assessing the pricing and service performance of the Postal Service in fiscal year 2020 (39 U.S.C. Section 3653). The Commission is required to issue its ACD 90 days after the filing of the Postal Service's *Annual Compliance Report* (ACR). Key issues identified in the ACD include:

- Ten Market Dominant products did not cover their costs in FY 2020, and two of the five Market Dominant classes (Periodicals and Package Services) were also non-compensatory.
- Operational and financial problems with flat-shaped products persisted, as these products had a negative contribution of more than \$1 billion, and despite previous Commission directives, the Postal Service does not have a satisfactory plan to correct this.
- Due to a number of internal and external factors, 17 of 22 Market Dominant products failed to meet their service standards, the worst service performance results since the Postal Accountability and Enhancement Act of 2006 mandated the establishment of service standards and tracking of performance against those standards.

The following is a more complete summary of the Commission's principal findings, recommendations, and directives.

MARKET DOMINANT RATES AND FEES

Workshare Discounts:

The Commission finds that seven discounts did not comply with title 39, section 3622(e), which states that workshare discounts shall not exceed avoided costs. The Commission directs that the Postal Service must either align the workshare discount with its avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

Non-compensatory Products:

The Commission identifies 10 non-compensatory Market Dominant products in FY 2020: Periodicals In-County, Periodicals Outside County, USPS Marketing Mail Flats, USPS Marketing Mail Parcels, USPS Marketing Mail Carrier Route, Media Mail/Library Mail, Bound Printed Matter (BPM) Parcels, Money Orders, Inbound Letter Post, and International Ancillary Services.

In its FY 2019 ACD, the Commission directed the Postal Service to include an updated version of the FY 2019 ACD Periodicals Pricing Report in its FY 2020 ACR. The Commission concludes that on the whole, the Postal Service's FY 2020 Periodicals Pricing Report meaningfully responds to its directive and directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2021 ACR.

Concerning USPS Marketing Mail Flats, the Commission finds that the cost coverage issues raised in its FY 2010 ACD have continued to worsen. Postal Service projections show that the remedy ordered by the Commission in its FY 2019 ACD is likely to have a positive impact, and the Commission directs the Postal Service to continue the above-average price increases as detailed by the FY 2019 directive for another year. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs, as well as continuing to comply with the FY 2015 directive.

With regard to USPS Marketing Mail Parcels, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2020 and requires the Postal Service to propose a price increase for USPS Marketing Mail Parcels at least 2 percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment. The Commission also requires that the Postal Service increase USPS Marketing Mail Carrier Route prices by at least 2 percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment.

In FY 2020, the Package Services class as a whole was non-compensatory, with two non-compensatory products—Media Mail/Library Mail and BPM Parcels. For Media Mail/Library Mail, the Commission finds that the Postal Service's approach to improving cost coverage through above-average price increases is appropriate and recommends the

approach be continued. For BPM Parcels, the Commission recommends that the Postal Service propose an above-average price increase in the next Market Dominant price change. The Commission further recommends that the Postal Service explore and implement opportunities to reduce the unit cost of this product and report on these results in its FY 2021 ACR.

For the Special Services product Money Orders, the Commission finds that revenue was not sufficient to cover attributable costs in FY 2020 and urges the Postal Service to improve cost coverage. The Commission recommends that the Postal Service propose an above-average price increase (consistent with 39 C.F.R. § 3030.221) in the next Market Dominant price change.

Regarding its evaluation of Inbound Letter Post, the Commission notes that the transfer of Inbound Letter Post small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Inbound Letter Post Small Packets and Bulky Letters product on the Competitive product list occurred in Quarter 2 of FY 2020. However, the product was still non-compensatory in FY 2020, with a slight improvement in cost coverage from FY 2019. In Library Reference PRC-LR-ACR2020-11, the Commission provides a detailed analysis of public Inbound Letter Post data. The Commission recommends that the Postal Service negotiate bilateral and multilateral agreements that contain rates for Inbound Letter Post that are more compensatory than default terminal dues. The Commission also urges the Postal Service to undertake focused initiatives to reduce Inbound Letter Post costs without compromising quality of service, and to improve quality of service in order to benefit from terminal dues bonuses. Lastly, the Commission recommends that the Postal Service work with the United States Department of State within the relevant Universal Postal Union (UPU) bodies to ensure that terminal dues proposals adopted at the 2021 UPU Congress will cover costs for Inbound Letter Post.

For the International Ancillary Services product, the Commission notes that the increase in cost was related to the 100 percent increase in In-office Cost System (IOCS) tallies, from 1 to 2. The Commission will continue to evaluate the cost coverage of this product in future years.

COMPETITIVE PRODUCTS RATES AND FEES

In its compliance review of rates and fees for Competitive Products, the Commission finds that revenues for five Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The Commission also determines that every domestic product with rates of general applicability covered its attributable cost. The Competitive products that did not cover attributable costs are one domestic negotiated service agreement (NSA), GEPS 11, International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), and International Ancillary Services. Therefore, the Commission directs the Postal Service to take corrective action, including requiring new quarterly reporting on outbound international NSAs to ensure ongoing compliance and appropriate oversight for these contracts.

SERVICE PERFORMANCE

The Commission notes that in FY 2020 the Postal Service faced significant challenges, including the COVID-19 pandemic, high volumes of Political Mail and Election Mail, and a substantial increase in packages. Combined with voluntary operational changes, there was a notable decline in service performance, as further discussed in Chapter V of the ACD.

In FY 2020, the Commission finds that most products failed to meet their service performance targets. The Postal Service met its performance targets for five Market Dominant products including: USPS Marketing Mail High Density and Saturation Letters, USPS Marketing Mail Parcels, BPM Parcels, and two Special Services products. However, service performance results for 17 Market Dominant products did not meet their targets including: all First-Class Mail products, both Periodicals products, USPS Marketing Mail High Density and Saturation Flats/Parcels, USPS Marketing Mail Carrier Route, USPS Marketing Mail Letters, USPS Marketing Mail Flats, USPS Marketing Mail Every Door Direct Mail—Retail (EDDM-R), BPM Flats, Media Mail/Library Mail, and several Special Services products, including Stamp Fulfillment Services and Post Office Box Service.

In its FY 2019 ACD, the Commission directed the Postal Service to provide specific information developed from its First-Class Mail Single-Piece Letters/Postcards metrics as part of its FY 2020 ACR. The Postal Service provided analysis linking its root cause assessments with the impact on service performance results for this product and other First-Class Mail and USPS Marketing Mail products.

The Commission determines that in FY 2020 the Postal Service was out of compliance with regard to service performance for First-Class Mail Single-Piece Letter/Postcards, Outbound Single-Piece International, Outside County Periodicals, and In-County Periodicals. This is the sixth consecutive year that the Commission has determined that the Postal Service was out of compliance with regard to service performance for First-Class Mail Single-Piece Letters/Postcards. This is the first year that the Commission has made this determination for Outbound Single-Piece International, Outside County Periodicals, and In-County Periodicals.

The Commission directs the Postal Service to continue reporting specific information developed from its internal metrics within 90 days of the issuance of this report and as part of its FY 2021 ACR. These requirements include reporting monthly service performance data for products found out of compliance. The Commission has specifically developed directives that elicit information regarding the steps that the Postal Service will take to restore service performance for its products in FY 2021. Additionally, the ACD directs the Postal Service to file with the Commission a pre-implementation service performance impact analysis for initiatives that are planned for implementation on or before the issuance of the next ACD that would have a reasonably foreseeable impact on service performance results. This directive affects newly developed initiatives; it would not include initiatives related to the Postal Service's recently-filed proposal pending before the Commission in Docket No. N2021-1. The Commission will pursue information related to this proposal through discovery processes under Commission regulations.

Flats Cost and Service:

The Commission finds that unit costs for flats have continued to rise, contribution losses have continued to grow, and flats products still have not met their service performance targets. In FY 2019, the Commission finalized rules to provide additional information to improve transparency into cost and service performance issues with respect to flats, as well as to increase accountability with respect to flats operational initiatives. The Commission focused its analysis on three primary areas: (1) flats financial performance, (2) flats service performance, and (3) pinch points that impact flats operational performance.

The Commission provides recommendations for data collection and analysis regarding ongoing and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations. In FY 2020, flat-shaped mail products collectively had a cumulative negative contribution of more than \$1 billion, highlighting the urgency and importance of improvement on this issue.

The full report, including an executive summary, is available at www.prc.gov, along with related documents under Docket No. ACR2020.

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the Postal Service to ensure the transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The President designates the Chairman. In addition to Chairman Michael Kubayanda, the other commissioners are Vice Chairwoman Ashley Poling and Commissioners Mark Acton, Ann Fisher, and Robert Taub. Follow the PRC on Twitter: @PostalRegulator and LinkedIn.