



Postal Regulatory Commission

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Press Release

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PRC Releases its Findings on Postal Service Rates and Performance in *Annual Compliance Determination Report*

Report Outlines Improvements and Continual Challenges

Washington, DC – Today the Postal Regulatory Commission (Commission) issued its 2019 [*Annual Compliance Determination*](#) (ACD), an assessment of the U.S Postal Service's rates and service performance in Fiscal Year 2019. The Commission is required to issue its ACD 90 days after the filing of the Postal Service's *Annual Compliance Report* (ACR).

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

MARKET DOMINANT RATES AND FEES

Workshare Discounts:

The Commission identifies compliance issues related to 12 workshare discounts and finds that one of the discounts remains out of compliance. The Commission directs that the Postal Service must either align the one workshare discount with its avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

Noncompensatory Products:

The Commission identifies eight noncompensatory products in FY 2019: Periodicals In-County, Periodicals Outside County, USPS Marketing Mail Flats, USPS Marketing Mail Parcels, USPS Marketing Mail Carrier Route, Inbound Letter Post, Media Mail/Library Mail, and Stamp Fulfillment Services.

The Commission finds that the Postal Service meaningfully addressed a directive in the FY 2018 ACD to include an updated version of the Periodicals Pricing Report in its FY 2019 ACR by providing a robust narrative and workpapers containing quantitative analyses. The Commission directs the Postal Service to also include an updated version of the Periodicals Pricing Report in its FY 2020 ACR and include an analysis of how the pricing in Docket No. R2020-1 impacted the cost, contribution, and revenue of Periodicals in FY 2020 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2020.

The Commission further finds that cost coverage issues raised in its FY 2010 ACD continue to worsen for USPS Marketing Mail Flats. The report details that Postal Service projections show that the remedy ordered by the Commission in the FY 2018 ACD is likely to have a positive impact. Therefore, the Commission directs the Postal Service to continue the above-average price increases, as detailed by the FY 2018 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 two 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 and continue to comply with the FY 2015 directive to measure, track, and report on cost and service issues related to flat-shaped products.

With regard to USPS Marketing Mail Parcels, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2019 and directs the Postal Service to propose a price increase for USPS Marketing Mail Parcels that is at least two percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment. The Commission further strongly recommends that the Postal Service increase USPS Marketing Mail Carrier Route prices by at least two percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment. If the Postal Service chooses not to do so, it must provide an estimate of the impact of the price increases it proposes on the contribution of the USPS Marketing Mail class and the contribution of the USPS Marketing Mail Carrier Route product.

The Commission expresses concern about the decrease in contribution and cost coverage from FY 2018 to FY 2019 for Inbound Letter Post. In December 2019, the Commission approved 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, which may improve the product's financial performance in FY 2020. 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. In addition, the Commission urges the Postal Service to undertake focused initiatives to reduce Inbound Letter Post costs without compromising quality of service. Finally, the Commission recommends that the Postal Service work with the Department of State to put forward proposals on compensatory terminal dues to the Universal Postal Union (UPU) Congress in August 2020. For International Registered Mail, a component of the International Ancillary services product, the Commission urges the Postal Service to continue efforts to limit cost increases, recommends the Postal Service take steps to improve its service performance for Inbound International Registered Mail in order to receive the full amount of additional revenue under the UPU supplementary remuneration program, and recommends that the Postal Service work with the Department of State to negotiate higher rates for Inbound International Registered Mail at the UPU Congress in August 2020.

For Media Mail/Library Mail, the Commission finds that the Postal Service's approach to improve cost coverage through above-average price increases is appropriate, but has been historically inadequate. The Commission directs the Postal Service to submit a plan outlining how it will increase cost coverage of Media Mail/Library Mail within 90 days of the filing of the ACD.

Revenue was not sufficient to cover attributable cost in FY 2019 for the Special Services product, Stamp Fulfillment Services. The Commission urges the Postal Service to continue to improve cost

coverage. If the Postal Service proposes a below-average price increase in its next Market Dominant price increase, it should explain its rationale.

COMPETITIVE PRODUCTS RATES AND FEES

The Commission identifies six Competitive products that did not cover attributable costs and were found to be out of compliance with 39 U.S.C. § 3633(a)(2): two domestic Negotiated Service Agreements (NSA), International Priority Airmail (IPA), International Money Transfer Service—Inbound (IMTS—Inbound), Royal Mail Group Inbound Air Parcel Post Agreement, and Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1. The Commission directs the Postal Service to take corrective action, as appropriate, for each noncompliant product. These actions include requiring termination or renegotiation of noncompensatory agreements, a review of rates and revenue discrepancies, an update on the status of the request to seek authority to terminate or renegotiate agreements, and transparency on costing issues. In addition, the Commission will closely review the cost models used to calculate cost coverage for agreements providing Sunday delivery.

SERVICE PERFORMANCE AND CUSTOMER ACCESS

The Commission reports that most products failed to meet their service performance targets in FY 2019. The only products that met their service performance targets are USPS Marketing Mail High Density and Saturation Letters, USPS Marketing Mail Parcels, Bound Printed Matter Parcels, and most Special Services products. For the fifth consecutive year, no First-Class Mail product category achieved its service performance target.

Because data generated from the new internal Service Performance Measurement systems replace data previously generated by the legacy external measurement systems, service performance results for the affected products in FY 2019 are not directly comparable to results for previous fiscal years.

In the FY 2018 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 2019 ACR. The Commission notes that the Postal Service has made progress in developing quantitative 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 directs the Postal Service to continue reporting specific information developed from its First-Class Mail metrics within 90 days of the issuance of this report and as part of its FY 2020 ACR. Additionally, the Commission directs the Postal Service to provide more transparency regarding the progress and effects of its existing multi-year national service performance improvement strategies.

Flats Cost and Service:

The Commission finds that unit costs for flats continue to rise, contribution losses continue to grow, and flats products have still not met their service performance targets. In FY 2019, the Commission finalized rules to provide additional information to improve transparency into these cost and service performance issues, as well as increase the accountability of the Postal Service related to flats' operational initiatives.

The full copy of the ACD, along with related documents, is available on the Commission's website, www.prc.gov under Docket No. ACR2019.

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the U.S. 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 Chairman is designated by the President. In addition to Chairman Robert G. Taub, the other commissioners are Vice Chairman Michael Kubayanda and Commissioners Mark Acton, Ann Fisher and Ashley Poling. Follow the PRC on Twitter: @PostalRegulator