

Postal Regulatory Commission
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**ANNUAL
REPORT**
TO THE PRESIDENT
AND CONGRESS

FISCAL YEAR
2022



LETTER FROM THE CHAIRMAN

January 2023

On behalf of my fellow Commissioners and the entire professional staff, it is my pleasure to present the Postal Regulatory Commission's Fiscal Year 2022 Annual Report to the President and Congress. Included in this report is the information required under the Postal Accountability and Enhancement Act (PAEA) of 2006 on the operations of the agency, as well as the extent to which regulations have achieved the objectives outlined in the PAEA. This annual report also provides an estimate of the cost of the Universal Service Obligation and the value of the postal monopoly.

The primary activities of the Commission this year demonstrate the critical role of the Commission as regulator in overseeing the nation's Postal Service and working to further its sustainability into the future. In that vein, the Commission endeavored to develop a comprehensive five-year Strategic Plan that addresses the present and future landscape of the Postal Service. The Commission applied a foresight-methodologies approach to formulate robust plans for diverse current and future scenarios. This strategic planning approach will empower the Commission to achieve its mission and adapt to changes in our postal system.

The Postal Service Reform Act of 2022 is a positive driver of many of the changes consumers and stakeholders will see in the coming months and years. In addition, as the Postal Service continues to make the changes to products and services detailed in its Strategic Plan, the Commission is actively overseeing those changes to ensure the level of service and accountability that consumers have enjoyed for decades are maintained. As a result, the Commission has experienced an increase in workload as well as public and stakeholder interest in its activities.

In FY 2022, the Commission conducted proceedings toward two advisory opinions on Postal Service proposals that affect mailers on a nationwide scale: (1) changes to service standards for USPS Retail Ground and Parcel Select Ground and (2) revisions to the critical entry times for some categories of Periodicals mail. The Commission also reviewed and approved proposed rate adjustments for Market Dominant and Competitive products and related classification changes and issued several critical rulemakings, notices, and reports that are central to providing the transparency the public relies on for Postal Service operations.

As Chairman of the Commission, I extend a thank you to our hardworking staff for their continued dedication to the mission of the agency. I further thank Congress, the administration, and the American people for trusting the Commission to provide oversight of our nation’s valued treasure—the United States Postal Service.



Respectfully,

Michael Kubayanda
Michael M. Kubayanda
Chairman



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ACRONYMS

ANPR	Advanced Notice of Proposed Rulemaking
ACD	<i>Annual Compliance Determination</i>
ACR	<i>Annual Compliance Report</i>
C.F.R.	Code of Federal Regulations
CAG	Cost Ascertainment Group
CHIR	Chairman's Information Request
CIR	Commission Information Request
CPI	Consumer Price Index
CY	Calendar Year
FEVS	Federal Employee Viewpoint Survey
FOIA	Freedom of Information Act
FSS	Flats Sequencing System
FY	Fiscal Year
IMb	Intelligent Mail barcode
IOCS	In-Office Cost System
MCS	<i>Mail Classification Schedule</i>
NPR	Notice of Proposed Rulemaking
NSA	Negotiated Service Agreement
PAEA	Postal Accountability and Enhancement Act
RRM	Return Receipt for Merchandise
SPM	Service Performance Management
SPR	Special Purpose Route
TACS	Time and Attendance Collection System
U.S.C.	United States Code
UPU	Universal Postal Union
USO	Universal Service Obligation

PRC | Mission, Vision, and Guiding Principles

Mission Statement

Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system.

Vision Statement

To be an independent regulator respected for effectively engaging postal stakeholders to promote a robust universal mail system through objective, accurate, and timely regulatory analyses and decisions.

We will look to achieve our vision by:

- Taking a multi-disciplinary and integrated approach to work
- Monitoring the environment and anticipating changes to enhance agility
- Utilizing rigorous evaluative methods
- Optimizing stakeholder engagement through an appropriate and clearly-defined public involvement process
- Developing staff expertise to ensure that the Commission is a center for excellence in postal regulatory matters
- Ensuring that the Commission is an employer of choice
- Ensuring efficient stewardship of resources

Guiding Principles

The Commission is committed to and operates by the principles of:



OPENNESS

Public participation



INTEGRITY

Fairness and impartiality
Timely and rigorous analysis



MERIT

Commitment to excellence
Collegiality and multi-disciplinary approaches



ADAPTABILITY

Proactive response to the rapidly changing postal environment



CHAPTER 1

FISCAL YEAR 2022

IN REVIEW

The activities and accomplishments highlighted in the Commission's Annual Report to the President and Congress demonstrate the agency's efficient use of its resources to achieve its mission of ensuring transparency and accountability of the Postal Service, as well as fostering a vital and efficient universal mail system.

In Fiscal Year 2022 and early FY 2023, the Commission engaged in several proceedings:

Rulemakings

- Issued an advanced notice of proposed rulemaking (ANPR) to consider revising the existing annual and periodic service performance reporting requirements for Market Dominant products and adding potential new reporting requirements that are consistent with the Postal Service Reform Act of 2022 (PSRA). After considering comments, the Commission issued a notice of proposed rulemaking (NPR) proposing several changes to the existing service performance reporting requirements
- Issued a second NPR proposing amendments to its regulations concerning rate incentives for Market Dominant products appearing in 39 C.F.R. part 3030
- Issued final rules concerning the Postal Service's letter monopoly and motions for reconsideration
- Issued final rules readopting its dynamic formula-based approach to calculating the appropriate share

Advisory Opinions

Adjudicated two major nature of service cases and issued advisory opinions on the Postal Service's proposed changes to (1) the service standards for USPS Retail Ground and Parcel Select Ground and (2) the Critical Entry Times for certain Periodicals. The Commission's findings and recommendations will help the Postal Service better implement these changes.

Pricing & Product Oversight

The Commission expeditiously evaluated the Postal Service's proposed rate and classification adjustments for Market Dominant and Competitive products to ensure compliance with the Postal Accountability and Enhancement Act of 2006 (PAEA) and the Commission's regulations. The Commission presided over several rate and classification cases for Market Dominant and Competitive products in FY 2022:

- Reviewed and approved proposed rates for Market Dominant products, along with related mail classification changes
- Issued a report on rate increases for Market Dominant products to the House Committee on Appropriations
- Reviewed and approved 131 Competitive Negotiated Service Agreements (NSAs)—122 domestic and 9 international
- Considered the Postal Service's request to transfer Bound Printed Matter (BPM) Parcels to the Competitive product list
- Initiated a proceeding to consider the potential need to modify the Mail Classification Schedule for Gift Cards
- Authorized a new market test of an experimental product named USPS Connect Local Mail and approved requests to convert the Plus One and Extended Mail Forwarding experimental products to permanent offerings

Reports Required by the PAEA

The Commission published four primary reports in Fiscal Year 2022:

- FY 2021 Annual Compliance Determination, overseeing the Postal Service's compliance with pricing and service standards
- Annual Report to the President and Congress, describing the Commission's accomplishments and activities in FY 2021 as the regulator of the Postal Service, and presenting estimates of the cost of the Postal Service's universal service obligation (USO) and the value of the Postal Service's statutory monopolies through FY 2020

- Analysis of Postal Service Financial Results and 10-K Statement for Fiscal Year 2021, providing an in-depth analysis of the Postal Service’s financial health
- Review of Postal Service FY 2021 Performance Report and FY 2022 Performance Plan, evaluating whether the Postal Service met its performance goals as required under Title 39 of the United States Code (U.S.C.), section 3653(d)

Public Inquiry Dockets

Six public inquiry dockets were before the Commission that related to service performance, the value of the postal and mailbox monopolies, the cost of the USO, letter monopoly exemptions, and suspended post offices.

In other proceedings, the Commission:

- Considered 13 Postal Service proposals and 1 United Parcel Service, Inc. (UPS) proposal for changes to analytical principles. The Commission issued final orders for all but two proposals in FY 2022 or early FY 2023
- Considered a complaint concerning the Postal Service’s 10-Year Strategic Plan
- Initiated a docket to commence a flats operations study in consultation with the Postal Service Inspector General
- Contributed to inter-agency deliberations led by the National Security Council to promote the opening of the Universal Postal Union (UPU) to wider postal sector players, among other activities that affect international postal policy
- Considered modifications to the Commission’s methodologies for estimating the cost of the USO and the value of the postal monopoly
- Received and processed more than 5,000 inquiries from the general public on postal matters
- Processed 45 Freedom of Information Act requests
- Opened 320 new dockets and processed a total of 3,530 documents
- Received an award from the Technology Modernization Fund for its IT Modernization project



Above: Commissioner Ashley Poling, Vice Chairman Ann Fisher, Commissioner Robert Taub, Chairman Michael Kubayanda, Commissioner Mark Acton

CHAPTER 2

ABOUT THE COMMISSION

The Commission is an independent establishment of the Executive Branch of the United States Government. It has exercised regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the PAEA of 2006.

The Commission is composed of five Commissioners, each of whom is appointed by the President, by and with the advice and consent of the Senate, for a term of six years. A Commissioner may continue to serve after the expiration of his or her term until a successor is confirmed, except that a Commissioner may not continue to serve for more than 1 year after the date on which his or her term would have otherwise expired. Not more than 3 of the Commissioners may be adherents of the same political party.

Commission Leadership



Michael M. Kubayanda

CHAIRMAN

President Joseph R. Biden, Jr. designated Mr. Kubayanda chairman of the Commission in January 2021. Chairman Kubayanda was nominated to the Commission on June 6, 2018, by President Donald J. Trump for a term expiring November 22, 2020. His nomination was confirmed by the U.S. Senate on January 2, 2019. He was named vice chairman in August 2019 and served in that position through the end of 2020. Prior to joining the Commission, Michael Kubayanda served as a board member and privacy officer for a digital health startup. He previously worked with the Office of Inspector General (OIG) of the U.S. Postal Service, ending as director, government relations, a role in which he worked with OIG officials to support the work of inspectors general in data analytics. In the OIG's research group, he oversaw research on technical issues and wrote reports addressing postal economics, intellectual property, and public-private partnerships, while serving as an advisor to colleagues on issues such as privacy, knowledge management, and innovation. Prior to his work with the OIG, he served on the staff of the House Committee on Oversight and Government Reform.



Ann C. Fisher

VICE CHAIRMAN

Ann C. Fisher was sworn in as a commissioner on August 8, 2019, for a first term, following her nomination by President Donald J. Trump and confirmation by the United States Senate. Prior to joining the Commission, Fisher spent more than a decade on Capitol Hill in various roles, including deputy staff director to former Chairman Susan Collins (R-ME) of the Senate Committee on Homeland Security and Governmental Affairs. She also served as an economist on the Senate Small Business Committee under former Chairman Larry Pressler (R-SD), and as a government relations manager at the U.S. Postal Service headquarters in Washington DC. Commissioner Fisher's term expires October 14, 2024.



Mark Acton

COMMISSIONER

Commissioner Mark Acton was reappointed to the Commission by President Barack H. Obama on December 12, 2016, for a third term of continued public service extending until October 14, 2022. Commissioner Acton was confirmed by the United States Senate on December 10, 2016. Commissioner Acton was nominated by President Barack H. Obama on May 12, 2011, for a second term of office through October 14, 2016, and was confirmed by the United States Senate on September 26, 2011. President George W. Bush first nominated Mr. Acton as a postal rate commissioner on November 7, 2005, and he was confirmed by the Senate on August 3, 2006. Prior to that appointment, Mr. Acton served as special assistant to the chairman of the Postal Rate Commission and assisted in managing all aspects of agency operations.



Ashley E. Poling

COMMISSIONER

Ashley Jay Elizabeth Poling was sworn in as commissioner for a first term on August 8, 2019, following her nomination by President Donald J. Trump and confirmation by the United States Senate. Prior to joining the Commission, Ms. Poling served as the director of governmental affairs and senior counsel to Ranking Member Gary C. Peters (D-MI) on the Senate Homeland Security and Governmental Affairs Committee where she advised Senator Peters on policy issues, negotiated with stakeholders to advance bipartisan legislation, and implemented strategies to advance Senator Peters' governmental affairs priorities. Ms. Poling also served as senior policy counsel to Senator Heidi Heitkamp (D-ND) and as counsel to Senator Jon Tester (D-MT) on their respective Homeland Security and Governmental Affairs Subcommittees, where she focused on postal reform and federal workforce issues. Ms. Poling's term expires on November 22, 2024.



Robert G. Taub

COMMISSIONER

Robert G. Taub was chairman of the Commission for more than 6 years, from December 2014 until January 2021. Twice appointed to the Commission following unanimous confirmations by the U.S. Senate in 2011 and 2016, Commissioner Taub has more than 40 years of public service experience at the local, state, and federal levels. Before joining the Commission in October 2011, he was a principal civilian advisor to the Secretary of the Army John M. McHugh. As an Army senior executive, he helped the Secretary lead a workforce of more than 1.2 million people and manage an annual budget exceeding

\$200 billion. Commissioner Taub was awarded the Army's Decoration for Distinguished Civilian Service. Before his appointment to the Army, Mr. Taub served as chief of staff to U.S. Representative John M. McHugh (R-NY) for the preceding decade. As chief of staff, he oversaw the day-to-day operations of Representative McHugh's staff and offices in Washington, D.C. and Northern New York State. In a variety of leadership roles on the U.S. House Oversight & Government Reform Committee for 12 years, Mr. Taub also worked closely with Congressman McHugh on matters relating to the nation's postal and delivery sector. He crafted Representative McHugh's legislation for modernizing America's postal laws for the first time since 1970, culminating in passage of the Postal Accountability and Enhancement Act in 2006. Mr. Taub also helped Representative McHugh conduct hearings and investigations into postal operations that ultimately led to the enactment of a dozen other postal laws.

During his tenure in public office, Mr. Taub has addressed numerous national and regional conventions of postal employee organizations, mailing industry groups, and government and academic conferences both in the U.S. and abroad, on issues confronting the postal sector. The Inspector General of the U.S. Postal Service, postal employee unions, and mailing industry associations and nonprofits have all recognized Mr. Taub with several awards and honors.

Prior to his time with the House of Representatives, Mr. Taub worked for eight years at the U.S. Government Accountability Office (GAO), the investigative arm of Congress. As a senior policy analyst, Mr. Taub planned and directed evaluations for the Congress on environmental, banking, energy, and defense issues. Previous to his position with the GAO, Mr. Taub worked as a staff member for three different Members of Congress, a Member of the British Parliament, and state and county officials in upstate New York.

Staff and Office Structure

Commission staff has expertise in law, economics, finance, statistics, and cost accounting.

The Commission is organized into four operating offices:

OFFICE OF ACCOUNTABILITY & COMPLIANCE

The Office of Accountability and Compliance is responsible for technical analysis and formulating policy recommendations for the Commission on domestic and international matters.

OFFICE OF GENERAL COUNSEL

The Office of the General Counsel ensures the Commission fulfills its statutory and regulatory obligations by providing legal guidance on matters involving the Commission’s responsibilities.

PUBLIC AFFAIRS & GOVERNMENT RELATIONS

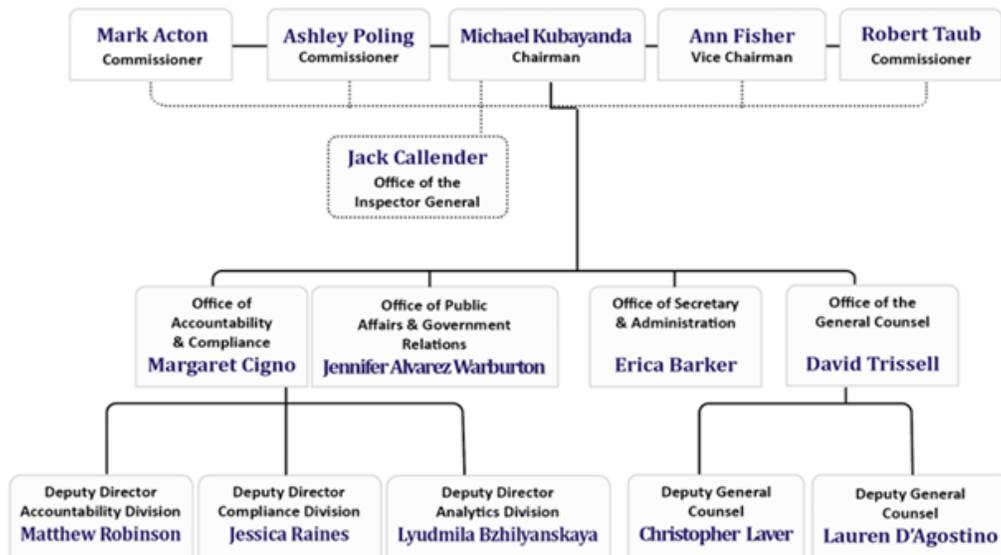
The Office of Public Affairs and Government Relations facilitates prompt and responsive communications with the public, Congress, Federal agencies, the Postal Service, and the media.

OFFICE OF SECRETARY & ADMINISTRATION

The Office of the Secretary and Administration records the Commission’s official actions; manages the Commission’s records, human resources, budget and accounting, and information technology; and provides other support services.

Note: *The Postal Service Reform Act of 2022 transferred the responsibilities of the Commission’s Office of the Inspector General to the Postal Service’s Office of Inspector General.*

Figure II-1: FY 2022 Organizational Structure



New Five-Year *Strategic Plan*

In FY 2022, the Commission commenced the development of its new five-year *Strategic Plan* for 2023-2028. The Plan is the foundation that allows the Commission to anticipate changes to the postal system and to adapt as necessary to ensure transparency and accountability of the United States Postal Service.

During the development of its Plan, the Commission used foresight methodologies to prepare robust strategies for diverse futures and continue the evolution of the Commission as the postal environment changes. The process involved the exploration of multiple future scenarios, bringing to



light the various ways in which the postal environment could shift, and how the Commission could be impacted by those changes. The Plan is designed to be practical and to support a nimble organization that allows the Commission to achieve its mission no matter how the future unfolds.

The strategic planning process was all-inclusive, allowing for input from the Commission's diverse and skilled staff and a variety of external postal experts, to ensure that the Commission continues to operate as an effective and objective regulator that is trusted by the American public, policymakers, and all interested stakeholders.

The Commission's systematic process resulted in the identification of four Strategic Goals that encompass its priorities and strategic focus throughout 2023-2028:

STRATEGIC GOAL 1: Anticipate and adapt to an evolving postal system through a responsive and trusted regulatory framework

STRATEGIC GOAL 2: Enhance and expand communication of accurate and relevant regulatory information to postal stakeholders, policymakers, and the general public

STRATEGIC GOAL 3: Develop an internal infrastructure to support and strengthen our regulatory capabilities through adaptive policies, efficient processes, and scalable platforms

STRATEGIC GOAL 4: Build an organization that will attract, develop, and retain a diverse workforce of experts

The Commission's new [Strategic Plan](https://www.prc.gov) can be viewed or downloaded in its entirety at www.prc.gov.



CHAPTER 3

FISCAL YEAR 2022 PROCEEDINGS

The Postal Accountability and Enhancement Act (PAEA)¹ requires the Commission to submit an *Annual Report to the President and the Congress* (Annual Report) that includes an analysis “concerning the operations of the Commission under [Title 39], including the extent to which regulations are achieving the objectives under sections 3622 and 3633” of Title 39 of the United States Code.² These sections contain laws related to Market Dominant and Competitive products, respectively.³ Market Dominant products are those products over which the Postal Service “exercises sufficient market power that it can effectively set the price[s] of such product[s] substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.”⁴ Competitive products consist of all other products.⁵

The Annual Report must analyze the extent to which regulations are achieving the objectives under section 3622, which relate to Market Dominant products. The modern system for regulating rates and classes for Market Dominant products (Market Dominant Rate System) must be designed to achieve the following objectives in 39 U.S.C. § 3622(b):

1. Maximize incentives to reduce costs and increase efficiency
2. Create predictability and stability in rates
3. Maintain high quality service standards established under 39 U.S.C. § 3691
4. Allow the Postal Service pricing flexibility
5. Assure adequate revenues, including retained earnings, to maintain financial stability
6. Reduce the administrative burden and increase the transparency of the ratemaking process
7. Enhance mail security and deter terrorism
8. Establish and maintain a just and reasonable schedule for rates and classifications without prohibiting the Postal Service from making changes of unequal magnitude within, between, or among classes of mail

9. Allocate the total institutional costs of the Postal Service appropriately between Market Dominant and Competitive products⁶

The Commission initially established regulations governing the Market Dominant Rate System in 2007 shortly after the PAEA was enacted.⁷ In FY 2021, the Commission issued final rules adopting changes to the regulations governing the Market Dominant Rate System to complete its review of the Market Dominant Rate System required by 39 U.S.C. § 3622(d)(3).⁸ The Commission’s review, findings, and proposed and final rules were discussed in the *FY 2021 Annual Report*.⁹

The Annual Report must also analyze the extent to which regulations are achieving the objectives under 39 U.S.C. § 3633 relating to Competitive products.¹⁰ The Commission’s regulations in 39 C.F.R. part 3035 support the requirements of section 3633, which are discussed below under the “Rate Adjustments - Competitive Products” section. This chapter also describes the Commission’s major orders, reports, and proceedings during FY 2022 and early FY 2023.

Rulemakings Amending Commission Regulations

Institutional Cost Contribution Requirement

The PAEA requires Competitive products to “collectively cover what the Commission determines to be an appropriate share of the [Postal Service’s] institutional costs... .”¹¹ The “appropriate share” is the minimum amount that Competitive products as a whole must contribute to institutional costs annually.¹² To implement this requirement, the Commission initially set the appropriate share level at a static 5.5 percent.¹³

At least every 5 years, the Commission must revisit its regulations concerning the appropriate share to determine if the minimum contribution requirement should be “retained in its current form, modified, or eliminated.”¹⁴ When making this determination, the Commission must consider, among other factors, “the prevailing competitive conditions in the market” and “the degree to which any costs are uniquely or disproportionately associated with any competitive products.”¹⁵

The Commission completed its first 5-year review of the appropriate share in Docket No. RM2012-3 and retained the appropriate share level at a static 5.5 percent.¹⁶ In 2019, the Commission completed its second 5-year review and issued Order No. 4963, which codified a new methodology to calculate the appropriate share: a dynamic formula-based approach that measures aspects of the competitive market and updates the appropriate share annually based on market changes.¹⁷

United Parcel Service, Inc. (UPS) appealed Order No. 4963 to the District of Columbia Circuit (D.C. Circuit), which subsequently remanded the case to the Commission to address particular issues identified in the court’s decision.¹⁸ On November 18, 2021, the Commission issued a supplemental notice of proposed rulemaking (NPR) that addressed the issues identified by the court and initiated the Commission’s third 5-year review of the appropriate share requirement.¹⁹ The Commission again proposed to calculate the appropriate share using the dynamic formula-based approach that it previously adopted in Order No. 4963.²⁰ The Commission explained how the formula operates and how it accounts for the prevailing competitive conditions in the market and other relevant circumstances that the Commission has historically considered qualitatively when evaluating the appropriate share requirement.²¹

After the issuance of Order No. 6043 and the expiration of the comment period established therein, the Postal Service Reform Act of 2022 (PSRA) was enacted on April 6, 2022.²² Accordingly, on September 7, 2022, the Commission issued Order No. 6269, which updated the Commission’s analysis pursuant to uncodified section 703(d) of the PAEA²³ and invited public comment on that analysis.²⁴ On January 9, 2023, the Commission issued final rules readopting its dynamic formula-based approach to calculating the appropriate share.²⁵

Revisions to Service Performance Reporting Requirements

On April 26, 2022, the Commission issued an advance notice of proposed rulemaking (ANPR)²⁶ to consider revising the existing annual and periodic service performance reporting requirements for Market Dominant products and adding potential new reporting requirements, consistent with the PSRA. Among other things, the PSRA directs the Postal Service to develop and maintain a publicly available online “dashboard” that provides weekly service performance data for Market Dominant products and mandates that the Commission provide reporting requirements for this Postal Service dashboard as well as “recommendations for any modifications to the Postal Service’s measurement systems necessary to measure and publish the performance information” located on the dashboard.²⁷ Also, the PSRA authorizes the Postal Service to provide certain nonpostal services to the public and other Governmental agencies and requires the Postal Service to periodically report the quality of service for these nonpostal services.²⁸ In the ANPR, the Commission sought comments to facilitate its examination of the service performance reporting requirements.²⁹

After considering comments received, the Commission issued an NPR proposing several changes to the existing annual and periodic service performance reporting requirements.³⁰ The Commission proposed to require the Postal Service to report the average actual “delivery days,” which are days

in which Market Dominant products are eligible for delivery, for each Market Dominant product.³¹ For each Market Dominant product (except those included in Special Services) that did not meet its service performance goal pursuant to 39 C.F.R. § 3055.2(d), the Commission proposed to require the Postal Service to report point impact data for the top 10 root causes of on-time performance failures.³² The Commission proposed that the Postal Service report data related to its Site-Specific Operating Plans (SSOPs), by Region and Division (as identified in the SSOPs) and at the National level.³³ The Commission proposed new reporting requirements for nonpostal products, consistent with the new PSRA requirements.³⁴ The Commission proposed to formally codify reporting requirements related to mailpieces excluded from measurement.³⁵

The Commission also proposed specific requirements for the Postal Service’s online dashboard, which included reporting service performance data for each ZIP Code, District, and Area, and at the National level.³⁶ The proposal specified that the dashboard must include a feature allowing users to view service performance results for their 5-Digit ZIP Code and match them with the corresponding District and Area.³⁷ The Commission proposed that the data must be updated weekly, no later than 1 month from the date the data were collected.³⁸ The Commission proposed that the dashboard must also provide, at a minimum, service performance (measured as percent on-time delivery and average delivery days) by each Market Dominant mail class, product, and applicable service standard by the following: (1) District, Area, Nation, and 5-Digit ZIP Code; (2) time period that the user selects, along with the past 2 fiscal years; and (3) a selected pair of origin/destination 3-Digit or 5-Digit ZIP Code chosen by the user.³⁹ The Commission also proposed specific reporting requirements for political and election mail, Reply Mail, and nonprofit mail.⁴⁰

The Commission received eight comments on the proposed rules and is currently considering comments received.

Rate Incentives for Market Dominant Products

On May 15, 2020, the Commission issued Order No. 5510 adopting final rules amending its regulations concerning rate incentives for Market Dominant products appearing in 39 C.F.R. part 3030.⁴¹ When adjusting Market Dominant rates as part of a rate adjustment proceeding, the Commission’s rules permit the Postal Service to include rate incentives it plans to offer in the percentage change in rates calculation, as long as the rate incentives meet certain requirements.⁴² One requirement is that rate incentives must be rates of general applicability, which means the rates are “applicable to all mail meeting standards established by the Mail Classification Schedule [(MCS)], the Domestic Mail Manual [(DMM)], and the International Mail Manual [(IMM)].”⁴³

On June 15, 2020, the Postal Service filed a petition for review appealing this order to the D.C. Circuit.⁴⁴ The Commission subsequently issued a notice of intent to reconsider the final rules and noted that it would not enforce Order No. 5510 during the reconsideration period.⁴⁵

On November 14, 2022, the Commission issued a second NPR proposing amendments to the Commission's regulations concerning rate incentives for Market Dominant products appearing in 39 C.F.R. part 3030.⁴⁶ For purposes of Market Dominant rate adjustment proceedings, the proposed amendments would revise the regulation defining "rate of general applicability" to clarify that "to qualify as a rate of general applicability, a rate incentive may not be based on historical mail volumes or prior mailer participation in a rate incentive or promotion."⁴⁷ The Commission explained that a characteristic of the mail "is a feature of the mail sent, not of the mailer sending the mail."⁴⁸

The Commission also proposed to republish and begin enforcing two rules previously adopted in Order No. 5510.⁴⁹ Enforcing these rules would (1) add an additional criterion for a rate incentive to be eligible for inclusion in a percentage change in rates calculation and (2) require that a notice of rate adjustment include more information concerning Market Dominant rate incentives.⁵⁰ The Commission sought comments on the proposed rules, and this proceeding is currently pending.

Letter Monopoly Exemptions

On February 7, 2020, the Commission issued an ANPR to seek input from the public regarding the Postal Service's letter monopoly.⁵¹ The letter monopoly is the Postal Service's exclusive right to carry and deliver letters under certain circumstances.⁵² 39 U.S.C. § 601 specifies instances when the letter monopoly does not apply to a mailpiece.⁵³ Section 601(c) directs the Commission to promulgate "[a]ny regulations necessary to carry out [section 601]...".⁵⁴ After reviewing comments in this docket and in Docket No. PI2021-2, the Commission issued an NPR proposing new regulations necessary to carry out section 601.⁵⁵

First, the Commission proposed to add a provision stating that certain Postal Service regulations related to the letter monopoly fall within the scope of the proposed rules and are subject to Commission interpretation.⁵⁶ Second, the Commission proposed to prohibit the Postal Service from promulgating any new regulations, issue guidance, or enter into agreements purporting to suspend or otherwise define the scope of the letter monopoly.⁵⁷ Third, the Commission proposed to add a provision allowing parties to seek interpretation of statutory language or Postal Service regulations by either filing a rulemaking petition with the Commission or requesting an advisory opinion from the Commission's General Counsel.⁵⁸

After considering comments received, the Commission issued final rules adopting the rules as proposed with two changes.⁵⁹ First, the Commission clarified that regulations implementing section 601 describe certain circumstances in which letters may be carried out of the mail.⁶⁰ Second, the Commission clarified that the prohibition on new regulations would not restrict the Postal Service from issuing guidance regarding the letter monopoly.⁶¹ The final rules became effective on August 15, 2022.⁶²

Other Rulemakings

Two other rulemakings were before the Commission in FY 2022. On April 5, 2022, the Commission issued an NPR proposing amendments to the Commission's rules of practice and procedure relating to motions for reconsideration of final Commission orders.⁶³ The Commission proposed timing and content requirements, which would allow any person to file a motion for reconsideration of a Commission final order within 15 days after that order is issued.⁶⁴ The Commission proposed that filing a motion for reconsideration would not stay the effect of the underlying Commission order, unless the Commission orders otherwise.⁶⁵ After considering comments received, the Commission adopted the rules as proposed, with a revision to clarify the appellate deadlines under 39 U.S.C. § 3663.⁶⁶

In Docket No. RM2021-2, the Commission issued an ANPR to seek input on performance incentive mechanisms that would maximize incentives to increase efficiency and reduce costs, maintain high-quality service standards, and assure financial stability (including retained earnings).⁶⁷ This rulemaking was described in the *FY 2021 Annual Report* and is currently pending before the Commission.⁶⁸

Two petitions for rulemaking remain pending before the Commission that seek revisions to the regulations governing the Market Dominant Rate System to reflect the enactment of the PSRA.⁶⁹

Rate Adjustments

One of the Commission's major statutory responsibilities is to ensure that the Postal Service's proposed rate and classification adjustments for Market Dominant and Competitive products comply with applicable statutory and regulatory requirements. Rates for Market Dominant and Competitive products are either (1) rates of general applicability or (2) rates not of general applicability. Rates of general applicability are "available to all mailers equally on the same terms and conditions."⁷⁰ These rates are available to the general public; examples include Forever Stamps and Priority Mail Flat Rate

boxes. All customers pay the same rate for a product, although some products are only available to bulk mailers not individual mailers.

Rates not of general applicability are offered by the Postal Service to specific mailers through negotiated service agreements (NSAs).⁷¹ NSAs are written contracts between the Postal Service and a mailer that are effective for a defined period of time.⁷² They provide for customer-specific rates, fees, and/or terms of service according to the terms and conditions of the contract.⁷³

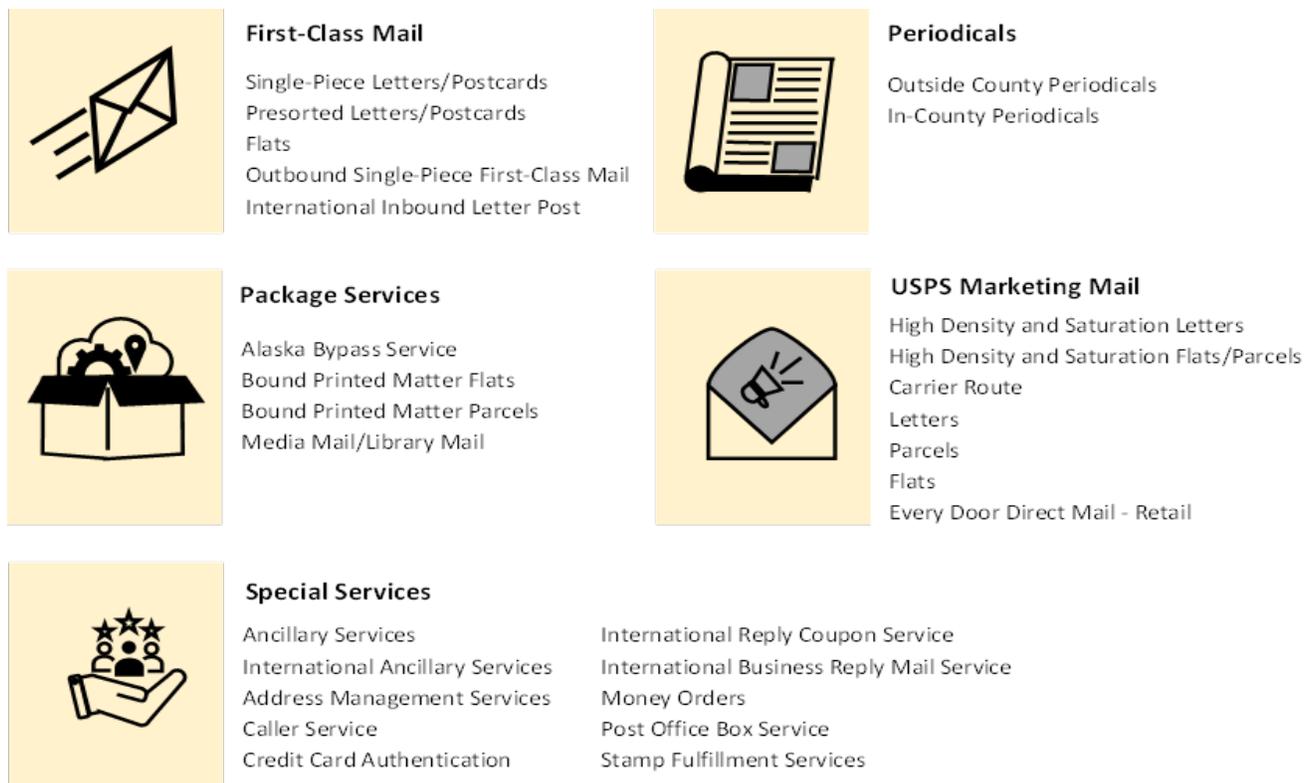
In FY 2022, the Commission reviewed the Postal Service’s proposed changes to rates for both Market Dominant and Competitive products, along with corresponding classification changes.⁷⁴ Each is discussed below.

Market Dominant Products

Market Dominant products with rates of general applicability are divided into five mail classes as shown in Figure III-1:

Figure III-1

Market Dominant Classes and Products Rates of General Applicability



Source: 39 C.F.R. pt. 3040, subpt. A, Appendix A.

In FY 2022, there was one Market Dominant rate adjustment proceeding. On April 6, 2022, the Postal Service filed a notice proposing rate adjustments and related MCS changes for Market Dominant products.⁷⁵ After analyzing the record and considering comments received, the Commission issued an order concluding that the proposed rate adjustments, including workshare discounts, were consistent with 39 C.F.R. part 3030 and applicable Commission directives and orders.⁷⁶ It found that the proposed rate adjustments were consistent with the pricing requirements in 39 U.S.C. § 3626, and the planned MCS changes, as revised in the order, were consistent with applicable law.⁷⁷ The new rates and related MCS changes became effective on July 10, 2022.⁷⁸

Application for Workshare Discount Waiver

On August 8, 2022, the Postal Service applied for a waiver under 39 C.F.R. § 3030.286 for the workshare discount associated with USPS Marketing Mail Carrier Route Flats dropshipped at the destination delivery unit in the next Market Dominant rate adjustment filing.⁷⁹ It explained that the methodology used to calculate passthroughs for USPS Marketing Mail flats results in volatile passthrough percentages and that complying with the requirements for workshare discounts would require irrational pricing.⁸⁰ For this reason, it sought a waiver to set this workshare discount more than its avoided costs so that the workshare discount's passthrough would be 105 percent.⁸¹

After reviewing the record and considering comments received, the Commission issued an order approving the Postal Service's waiver application and finding that the application was consistent with 39 U.S.C. § 3622(e)(2)(D) and 39 C.F.R. § 3030.286(c)(5).⁸² It concluded that setting this workshare discount closer or equal to the avoided costs would impede the "operational strategy" of maintaining rational pricing and that the Postal Service's waiver application complied with the requirements set forth in the Commission's regulations.⁸³ The Commission's approval was, in part, based on the Postal Service's explanation that the circumstances surrounding its application were both exceptional and unlikely to recur.⁸⁴ The Commission announced its expectation that the Postal Service would "file a fully supported proposal that would correct the anomaly as soon as practicable and in time for the Commission to fully approve the new structure and/or methodology before the planned July 2023 price increase."⁸⁵

Report on Market Dominant Rate Increases

On December 9, 2022, the Commission issued a report on rate increases for Market Dominant products to the House Committee on Appropriations (the Committee).⁸⁶ In conjunction with the Consolidated Appropriations Act, 2022, which made appropriations to the Commission for its FY 2022 budget, the Committee stated it was "concerned with the size and timing of the [Postal

Service’s August 2021] rate increase [for Market Dominant products] and that the PAEA process did not account for the impact of the pandemic, including factors such as higher package revenues and emergency funding provided to the [Postal Service].”⁸⁷ The Commission was directed to study these factors and report to the Committee “on how these factors should impact the rate increases proposed by the [Postal Service] and the [Commission’s] rules adopted in November [2020].”⁸⁸

In this report, the Commission concluded that “the size and timing of the August 2021 rate increase were consistent with all applicable laws and demonstrated that the modified ratemaking system was working as intended to address discrete drivers of the Postal Service’s net losses that are out of its direct control.”⁸⁹ The Commission stated that after considering the impact of the COVID-19 pandemic on the modified ratemaking system and rate increases, including higher package revenues and emergency funding provided to the Postal Service, it found that these factors did not change its findings that the initial ratemaking system failed and that the modified system is necessary to achieve the statutory objectives in Title 39.⁹⁰ The Commission noted that the D.C. Circuit affirmed all aspects of the modified ratemaking system and stated it will continue to monitor future challenges to ensure the Postal Service’s successful and lawful implementation of this system.⁹¹

Competitive Products

For Competitive products, when the Postal Service decides to change rates or classes of general applicability, it must file a notice with the Commission describing the proposed adjustments at least 30 days before the new rates or classes become effective.⁹² For proposed changes to rates or classes not of general applicability, the Postal Service must provide 15 days’ advance notice.⁹³ The notice of proposed rate or class adjustment must include an explanation and justification for the proposed changes, the effective date of the new rates or classes, and either a schedule of the changed rates or the record of proceedings regarding the changes.⁹⁴

The Commission then initiates a proceeding to consider the proposed rate or class adjustments, appoints a Public Representative, and provides an opportunity for comment. It reviews proposed rate adjustments for Competitive products to ensure they comply with three statutory requirements in 39 U.S.C. § 3633(a):

1. Market Dominant products must not subsidize Competitive products⁹⁵
2. Revenue for each Competitive product must cover its attributable costs, which are “the direct and indirect postal costs attributable to such product through reliably identified causal relationships”⁹⁶

3. All Competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service’s institutional costs⁹⁷

Competitive rate adjustments must also comply with the Commission’s rules in 39 C.F.R. part 3035. In FY 2022, the Commission reviewed the Postal Service’s proposed changes to both rates of general applicability and rates not of general applicability for Competitive products. Each is discussed below.

Rates of General Applicability

Competitive products with rates of general applicability are grouped into domestic and international products, as shown in Figure III-2:

Figure III-2

Domestic and International Competitive Products Rates of General Applicability



Domestic Mail

- Priority Mail Express
- Priority Mail
- Parcel Select
- Parcel Return Service
- First-Class Package Service
- USPS Retail Ground

Special Services:

- Post Office Box Service
- Address Enhancement Services
- Greeting Cards, Gift Cards, and Stationery
- Competitive Ancillary Services^a
- Premium Forwarding Service
- Shipping and Mailing Supplies



International Mail

- Outbound International Expedited Services
- Outbound Priority Mail International
- Outbound Single-Piece First-Class Package International Service
- International Priority Airmail
- International Surface Air Lift
- International Direct Sacks—Airmail M-Bags
- Inbound Parcel Post (*at Universal Postal Union rates*)
- Inbound Letter Post Small Packets and Bulky Letters

Special Services:

- International Money Transfer Service - Outbound
- International Money Transfer Service - Inbound
- International Ancillary Services^b

^a This product consists of the following services: Adult Signature Service, Package Intercept Service, and Premium Data Retention and Retrieval Service. FY 2021 ACD at 78 n.93.

^b This product consists of the following services: International Certificate of Mailing; Competitive International Registered Mail; Outbound International Return Receipt; Restricted Delivery; Outbound International Insurance; and Customs Clearance and Delivery Fee. FY 2021 ACD at 81 n.100.

Source: 39 C.F.R. pt. 3040, subpt. A, Appendix B; FY 2021 ACD at 78, 81.

On November 10, 2021, and May 6, 2022, the Postal Service filed notices proposing changes in rates of general applicability for several domestic and international Competitive products, along with proposed changes to the MCS.⁹⁸ After reviewing the notices, CHIR responses, and the comments received, the Commission approved the proposed rate adjustments and corresponding MCS changes in Order Nos. 6071 and 6195, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations in 39 C.F.R. part 3035.⁹⁹ The new rates and classification changes became effective on January 9, 2022, and July 10, 2022.¹⁰⁰

Order No. 6071 directed the Postal Service to file quarterly reports containing volume and revenue data for USPS Connect Local in Docket No. CP2022-22.¹⁰¹ Also, in both Order Nos. 6071 and 6195, the Commission noted that the notices contained “significant classification changes” and directed the Postal Service to file future classification changes related to Competitive products in Mail Classification (MC) dockets, rather than solely in Competitive rate adjustment (CP) dockets.¹⁰² At issue were classification changes below the product level that affect the descriptive content of the MCS and not the Market Dominant and Competitive product lists.¹⁰³ Product list and MCS requirements are discussed below in the “Changes to Product Lists and the Mail Classification Schedule” section.

On January 19, 2022, the Postal Service filed a motion for clarification of Order No. 6071 regarding these two directives.¹⁰⁴ The Postal Service asserted that filing quarterly reports for USPS Connect Local in Docket No. C2022-22 would be duplicative because it already files these data with the quarterly Competitive billing determinants.¹⁰⁵ It also requested clarification of the directive to file all classification changes for Competitive products in MC dockets, stating that this requirement would be inconsistent with past Commission precedent.¹⁰⁶ The Postal Service subsequently filed another motion for clarification of Order No. 6195, which renewed its request for clarification of Order No. 6071 and reiterated its concern with requiring classification changes below the product level to be evaluated in MC dockets.¹⁰⁷

On August 15, 2022, the Commission issued Order No. 6249, which granted the Postal Service’s motions for clarification, in part.¹⁰⁸ It rescinded the directive to file quarterly volume and revenue data for USPS Connect Local in Docket No. CP2022-22 after verifying that the Postal Service provides the data as part of its quarterly billing determinants.¹⁰⁹

The Commission acknowledged that since the passage of the PAEA, two separate regulatory tracks have evolved to facilitate the Postal Service proposing classification changes for Competitive products below the product level as such changes have been permitted to be proposed in both MC dockets and CP dockets.¹¹⁰ The Commission explained that in past CP dockets, information provided

about proposed classification changes “has been substantially less detailed and thorough than the information provided in notices filed” in MC dockets.¹¹¹ It stated that it will continue to permit the Postal Service to file classification changes below the product level in CP dockets, subject to the Postal Service’s adherence to the additional guidance provided in Order No. 6249.¹¹²

However, the Commission emphasized its expectation that the Postal Service support proposed below-product-level classification changes with “a thorough and well-developed explanation... [and] justification...such that the Commission can ensure changes are accurate, consistent with the requirements of 39 U.S.C. § 3633, and transparent to stakeholders.”¹¹³ It stated that it may consider initiating a rulemaking proceeding to revisit this issue if the Postal Service continues to inadequately support and explain proposed classification changes in CP dockets.¹¹⁴

In FY 2022, the Postal Service also filed a notice proposing time-limited changes in rates of general applicability for certain domestic Competitive products.¹¹⁵ The Postal Service proposed temporarily increasing rates effective October 2, 2022, with rates rolling back to current levels on January 22, 2023.¹¹⁶ After reviewing the notice, CHIR responses, and comments received, the Commission approved the proposed time-limited rate adjustments, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations in 39 C.F.R. part 3035.¹¹⁷

Rates Not of General Applicability

Negotiated Service Agreements

For Competitive products, the Postal Service sets rates not of general applicability by entering into NSAs with specific mailers. These NSAs require prior Commission review for compliance with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3035. In FY 2022, the Commission reviewed and approved 131 Competitive NSAs: 122 domestic and 9 international. Table III-1 shows the number of NSAs the Commission approved between FY 2018 and FY 2022.

Table III-1
Competitive NSAs Approved by the Commission,
FY 2018 through FY 2022^a

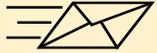
COMPETITIVE NSAs		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
		 Domestic	122	131	218	191
 International	9	5	49	25	81	
TOTAL	131	136	267	216	307	

^a This table shows approved NSAs the Postal Service filed as new products or as functionally equivalent to the baseline agreement of existing products. This table does not include NSA modifications or amendments.

Products with non-published rates enable the Postal Service to enter into contracts featuring negotiated rates without prior Commission approval of the rates specific to each contract. The Commission reviews rates for the product as a whole for compliance with statutory standards, rather than the rates for each contract before implementation. These non-published rate contracts must comply with applicable filing and regulatory requirements, including pre-approved pricing formulas, minimum cost coverage, and documentation. The absence of prior review of specific contract rates streamlines the approval process, providing the Postal Service with additional flexibility.

In FY 2022, the Postal Service implemented 217 NSAs with non-published rates. Table III-2 shows the number of non-published rate NSAs implemented by the Postal Service between FY 2018 and FY 2022.

Table III-2
Non-Published Rate Contracts Implemented by the Postal Service,
FY 2018 through FY 2022

NON-PUBLISHED RATE		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
	 Global Expedited Package Services (GEPS)—Non-Published Rates 1-15	134	159	380	326	474
 Priority Mail—Non-Published Rates 1 and 2	83	120	125	116	145	
TOTAL	217	279	505	442	307	

Inbound Letter Post

Under the Universal Postal Union (UPU) Convention, by June 1, 2022, the Postal Service had to submit to the UPU any self-declared rates for Inbound Letter Post Small Packets and Bulky Letters that will become effective on January 1, 2023.¹¹⁸ On April 29, 2022, the Postal Service filed a notice with the Commission proposing specific per-item and per-kilogram self-declared rates for Inbound Letter Post Small Packets and Bulky Letters, which would become effective on January 1, 2023.¹¹⁹ It asserted that the proposed rates comply with 39 U.S.C. § 3633.¹²⁰

Based on its review of the notice, the supporting data filed under seal and the comments received, the Commission issued an order concluding that the new self-declared rates complied with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3035.¹²¹ On August 29, 2022, the Commission also issued a notice of a preliminary determination to unseal the self-declared rates for Inbound Letter Post Small Packets and Bulky Letters.¹²² The Postal Service filed its response on September 6, 2022.¹²³

Inbound Parcel Post (at UPU rates)

Inbound Parcel Post (at UPU rates) is a Competitive product for the acceptance and delivery of inbound parcels weighing up to 70 pounds from foreign postal operators at air rates, surface rates, and e-commerce parcel rates.¹²⁴ Rates for Inbound Parcel Post (at UPU rates) are rates not of general

applicability because they are only available to foreign postal operators. Under the Regulations of the UPU Convention, the Postal Service and other foreign postal operators may qualify for semi-annual increases to their “base” rates for inbound air parcels if they provide certain value-added services.¹²⁵ These rate increases are applied to the base rates effective January 1 and July 1 of each year.¹²⁶

In FY 2022, the Postal Service filed two notices announcing its intention to change rates not of general applicability for Inbound Parcel Post (at UPU rates).¹²⁷ The rates would become effective on January 1, 2022, and July 1, 2022.¹²⁸ The Commission analyzed the proposed rates pursuant to 39 U.S.C. § 3633(a) and issued orders acknowledging planned rates for this product.¹²⁹

Assumed Federal Income Tax

Each year, the Postal Service is required to calculate the assumed Federal income tax on income from its Competitive products and to transfer the amount calculated from the Competitive Products Fund to the Postal Service Fund.¹³⁰ On January 12, 2022, the Postal Service filed its calculation of the assumed Federal income tax for FY 2021.¹³¹ After reviewing the calculation and one comment received, the Commission approved the Postal Service’s calculation of the assumed Federal income tax on its FY 2021 Competitive products’ income in accordance with 39 C.F.R. § 3060.42.¹³²

Annual Reports

Besides the Annual Report to Congress, the Commission issues three other reports each year that analyze information from the Postal Service’s *Annual Compliance Report* (ACR). The ACR analyzes costs, revenues, rates, and quality of service for Market Dominant and Competitive products.¹³³ The ACR also includes information about mail volumes, service performance, and customer satisfaction for Market Dominant products, as well as information on workshare discounts and market tests.¹³⁴ The PAEA requires the Postal Service to prepare and submit the ACR to the Commission within 90 days after the fiscal year ends on September 30.¹³⁵

The Commission’s *Annual Compliance Determination* (ACD) assesses the Postal Service’s compliance with statutory pricing and service requirements. The Financial Analysis Report analyzes the Postal Service’s overall financial position. The Analysis of Postal Service Performance Goals and Performance Plan evaluates whether the Postal Service met its performance goals and makes related recommendations. In FY 2022, each report was issued in Docket No. ACR2021 and is described below.¹³⁶

Annual Compliance Determination

The ACD is an important tool for enhancing transparency and accountability by determining whether the Postal Service complied with statutory pricing and service requirements in a given fiscal year. After receiving the ACR, the Commission has 90 days to solicit public comment and determine whether (1) any rates or fees in effect during the fiscal year did not comply with applicable laws and (2) the Postal Service met its service standards in effect during the fiscal year.¹³⁷ The Commission publishes its analysis of the ACR in the ACD.

The Commission issued the FY 2021 ACD on March 29, 2022, and made several principal findings and directives, which are shown in Figure III-3, below.

Figure III-3

FY 2021 ACD Principal Findings and Corresponding Directives/Recommendations

Findings

- Six workshare discounts had passthroughs equal to 100 percent, which were all within the USPS Marketing Mail class
- Six workshare discounts had passthroughs that exceed 100 percent
- Five of these workshare discounts were within the USPS Marketing Mail class and one discount was within the Periodicals class
- 63 workshare discounts had passthroughs below 85 percent

- The Periodicals class was non-compensatory
- Revenue for both products in the Periodicals class (In-County and Outside County) did not cover attributable costs
- The Package Services class was non-compensatory
- Revenue for Bound Printed Matter (BPM) Parcels was not sufficient to cover attributable costs
- The Postal Service did not take adequate steps to improve the cost coverage for BPM Parcels
- Revenue for Media Mail/Library Mail was not sufficient to cover attributable costs

- Revenue for First-Class Mail Flats was not sufficient to cover attributable costs
- Revenue for USPS Marketing Mail Flats was not sufficient to cover attributable costs
- The Postal Service has been unsuccessful at improving the cost coverage for USPS Marketing Mail Flats as required by past ACD directives. This product continues to violate 39 U.S.C. § 101(d) and possesses an unacceptable deficient cost coverage that continues to constitute an intra-class subsidy
- Both the USPS Marketing Mail Carrier Route and USPS Marketing Mail Parcels products failed to cover their attributable costs



**WORKSHARE
DISCOUNTS**



**MARKET DOMINANT
NON-COMPENSATORY
CLASSES & PRODUCTS**



**MARKET DOMINANT
NON-COMPENSATORY
PRODUCTS WITHIN
COMPENSATORY
CLASSES**

Recommendations

- The Postal Service cannot change workshare discounts with 100-percent passthroughs in any rate adjustment proceeding occurring before the FY 2022 ACD is issued
- The Postal Service must bring excessive workshare discounts into compliance consistent with 39 C.F.R. § 3030.283 in the next rate adjustment proceeding
- The Postal Service must bring unduly low discounts into compliance consistent with 39 C.F.R. § 3030.284 in the next rate adjustment proceeding

- The Commission encourages the Postal Service to continue maximizing its usage of rate authority and maximize its revenue by strategically pricing Periodicals
- The Postal Service should consider the recommendations made in the FY 2021 ACD for reducing flat-shaped mail costs
- The Postal Service must further explore initiatives to reduce the unit cost of BPM Parcels in FY 2022
- In the FY 2022 ACR, the Postal Service must explain in detail the initiatives it considered for BPM Parcels but did not implement in FY 2022, as well as the initiatives it implemented in FY 2022 or plans to implement in FY 2023
- The Commission strongly recommends that the Postal Service continue to apply above-average price increases to Media Mail/Library Mail in future rate adjustment proceedings

- The Postal Service must increase First-Class Mail Flats' prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting First-Class Mail through the issuance of the FY 2022 ACD
- The Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the average for the class
- The Postal Service must increase the price for these two products by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding
- For USPS Marketing Mail Parcels, the Commission encourages the Postal Service to continue to expend a reasonable amount of resources in order to explore and implement opportunities to reduce unit costs in light of the volume of the product

Findings

- Revenue for the Special Services product Money Orders was not sufficient to cover attributable costs

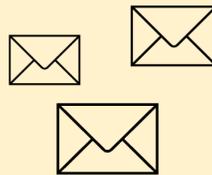
- Every Competitive domestic product with rates of general applicability, as well as all domestic and international negotiated service agreements, covered their attributable costs
- Revenues for three Competitive products did not cover their attributable costs: International Money Transfer Service (IMTS)—Inbound, IMTS—Outbound, and International Ancillary Services
- Questions remain regarding the Postal Service’s time-limited Pilot Program concerning Gift Cards^a

- For flats overall, attributable cost has continued to rise, negative contribution has continued to grow, and none of the flats products have met their service performance targets
- Despite Postal Service operational initiatives, several pinch points have gotten worse
- Bundle breakage, transportation costs, and delivery costs increased, while mail processing productivity decreased

MARKET DOMINANT NON-COMPENSATORY PRODUCTS WITHIN COMPENSATORY CLASSES (CONT.)



COMPETITIVE PRODUCTS



FLAT-SHAPED MAIL (FLATS)

Recommendations

- The Postal Service must increase prices for Money Orders by at least 2 percentage points above the class average in each Market Dominant rate proceeding affecting the Special Services class through the issuance of the FY 2022 ACD

- Not Applicable
- The Postal Service must take corrective actions for the three Competitive products that did not cover attributable costs
- The Postal Service must report quarterly information on the Gift Cards Pilot Program, including updates on volume and revenue, as well as future plans for the Pilot Program as long as it remains effective

- The Postal Service must implement initiatives to reduce mail processing costs
- The Postal Service must develop plans to reduce the costs associated with allied operations and gain additional insight into allied operations, as well as reduce the costs associated with transporting and delivering flats
- The Commission recommends that the Postal Service continue to estimate and report the additional cost that bundle breakage adds to flats processing, as well as develop an accurate method to track flats that are manually processed

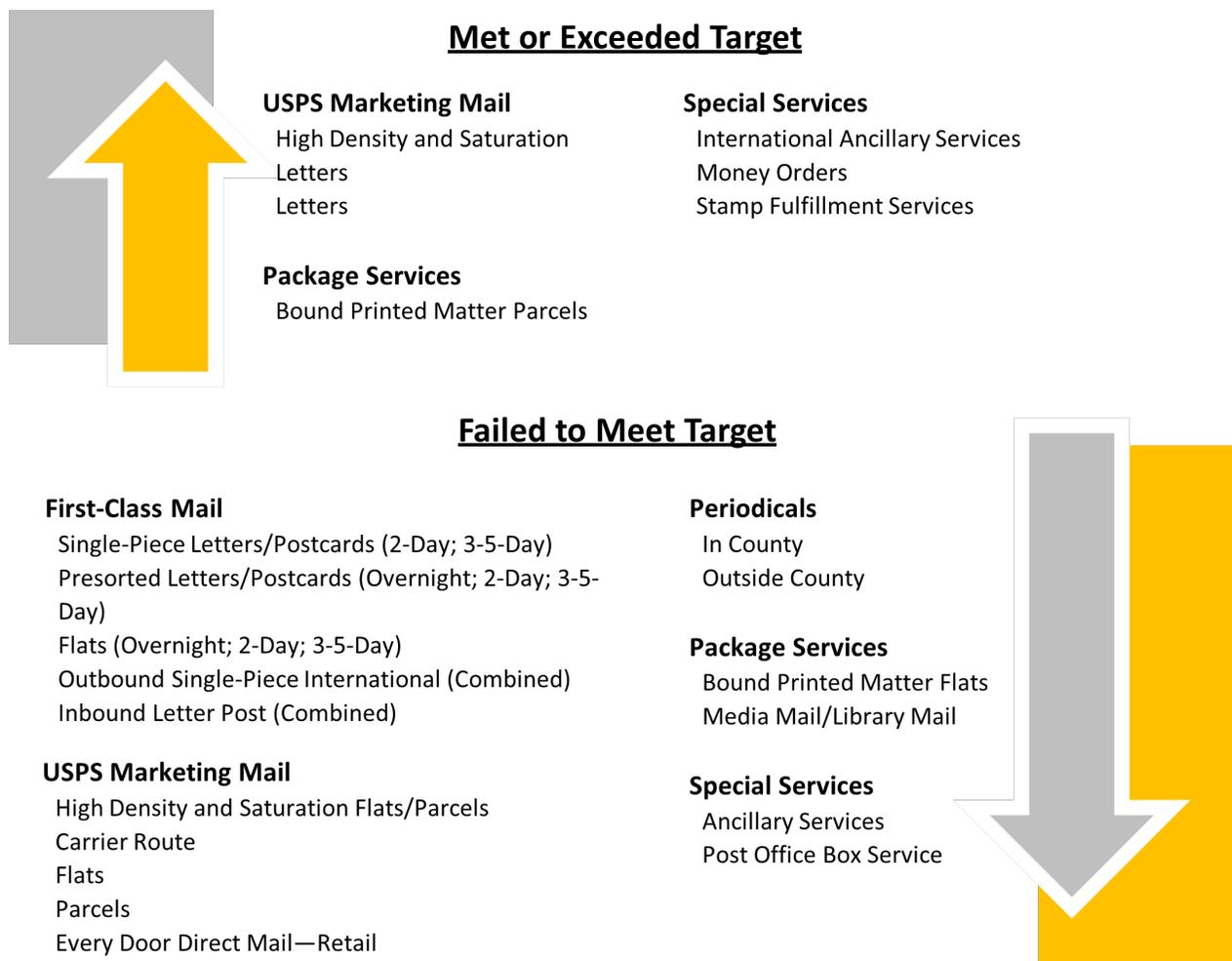
^a The Pilot Program for Gift Cards is discussed below in the “Changes to Product Lists and the Mail Classification Schedule” section below.

Source: FY 2021 ACD at 1-6, 17-23, 25-27, 31, 35-36, 40, 49-50, 55-56, 61, 78, 93-94, 100, 103 (as modified by Docket No. ACR2021, Order Granting Motion for Reconsideration of Directive Regarding Bound Printed Matter Parcels, June 23, 2022 (Order No. 6209)).

With respect to service performance, the Commission evaluated each Market Dominant product by comparing the percentage of mailpieces that achieve the stated service standard with targets set by the Postal Service.¹³⁸ It found that most products failed to meet their annual

service performance targets in FY 2021.¹³⁹ Figure III-4 below shows whether each Market Dominant product achieved their annual service performance targets for FY 2021. Figure III-4 illustrates that 21 products failed to meet their targets and were thus out of compliance.

Figure III-4
FY 2021 Service Performance Results for Market Dominant Products



Source: FY 2021 ACD at 107.

Notably, FY 2021 was the seventh consecutive year that no First-Class Mail product category achieved its service performance target. For all noncompliant products, the Commission directed the Postal Service to improve service performance results to achieve the applicable on-time percent target level in FY 2022.¹⁴⁰

The Commission’s evaluation of the Postal Service’s service performance took into consideration the effects of the COVID-19 pandemic, which exacerbated pre-existing service performance challenges. It further recognized three primary challenges resulting from the COVID-19 pandemic: (1) reduced

employee availability, (2) transportation disruptions, and (3) changes in the mail mix that affected the Postal Service’s service performance in FY 2021. Thus, the Commission developed directives to elicit information and data regarding service performance for noncompliant products and the steps the Postal Service will need to take to restore service performance for these products in FY 2022.¹⁴¹ These directives included continued Postal Service reporting of specific information developed from its internal metrics within 90 days after the FY 2021 ACD was issued and as part of its FY 2022 ACR.¹⁴² Also, the Commission directed the Postal Service to include with its FY 2022 ACR filing a specific plan for moving service performance targets from their current interim levels to 95 percent for each Market Dominant product.¹⁴³

Financial Analysis

The Commission issued its *Financial Analysis of the United States Postal Service Financial Results and 10-K Statement* for FY 2021.¹⁴⁴ The report provided comprehensive analysis of the Postal Service’s financial status primarily using information reported in its FY 2021 Form 10-K, including comparisons with FY 2020 results and its FY 2021 Integrated Financial Plan. The Commission found that during FY 2021, the COVID-19 pandemic continued to significantly impact Postal Service volume, revenue, and expenses.¹⁴⁵ It stated that the pandemic exacerbated Market Dominant volume declines because activity in many sectors of the economy remained below pre-pandemic levels, although package volumes increased due to continued growth in e-commerce.¹⁴⁶

The Commission found that at the end of FY 2021:

- The Postal Service’s total net loss was \$4.9 billion
- Cash and cash equivalents (excluding restricted cash) totaled \$23.9 billion, an increase of \$9.6 billion
- Operating revenue was \$77 billion, which was \$3.9 billion more than FY 2020
- Net operating expenses were \$79.6 billion, which were \$3 billion more than FY 2020
- Approximately 75.7 percent of total expenses were personnel-related¹⁴⁷

Analysis of Performance Goals

Each year, the Commission must evaluate whether the Postal Service met the performance goals established in the Postal Service’s annual performance report and performance plan.¹⁴⁸ The

Commission may also provide the Postal Service with recommendations related to protecting or promoting public policy objectives in Title 39.¹⁴⁹

On June 30, 2022, the Commission issued a detailed analysis of the Postal Service's progress during FY 2021 toward its four performance goals: (1) High-Quality Service, (2) Excellent Customer Experience, (3) Safe Workplace and Engaged Workforce, and (4) Financial Health.¹⁵⁰ In its analysis, the Commission evaluated whether the FY 2022 Annual Performance Plan and FY 2021 Annual Performance Report complied with 39 U.S.C. §§ 2803 and 2804.¹⁵¹ Also, the Commission found that the Postal Service either met or partially met each performance goal in FY 2021.¹⁵² The Commission provided related observations and recommendations for each performance goal to help the Postal Service meet the performance goal and better assess its performance in future years.¹⁵³

Nature of Service Cases

In FY 2022, the Commission issued two advisory opinions on the Postal Service's proposed changes to (1) the service standards for USPS Retail Ground and Parcel Select Ground; and (2) the Critical Entry Times (CETs) for certain Periodicals. Each proceeding is described below.

The Postal Service must request an advisory opinion from the Commission for proposed changes in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis.¹⁵⁴ The advisory opinion process is intended to better inform the Postal Service in its decision-making process, provide the public an opportunity to question and challenge Postal Service assumptions, provide transparency into the Postal Service's decision-making and policy-development process, and provide a different perspective for the Postal Service to consider.¹⁵⁵

The Commission's rules require the Postal Service to file its request at least 90 days before the effective date of the proposed changes.¹⁵⁶ Mail users, the officer of the Commission appointed to represent the interests of the general public (Public Representative) and the Postal Service are provided an opportunity for a hearing on the record conducted under 5 U.S.C. §§ 556 and 557 before the Commission's review is complete.¹⁵⁷ The Commission's advisory opinion is based on the record and considers the policies of 39 U.S.C. § 3661 and the rest of Title 39.¹⁵⁸

The Commission's advisory opinion must be in writing and certified by each Commissioner agreeing that in their judgment, the opinion conforms to the policies established under Title 39.¹⁵⁹ By law, the Commission's final opinion is advisory in nature. The law does not give the Commission authority to enforce its advice or to veto a service change proposed by the Postal Service. As a result, the Postal Service is not required to implement or take any further action regarding the Commission's opinion.

Service Standard Changes for USPS Retail Ground and Parcel Select Ground

On June 9, 2022, the Commission issued an advisory opinion in Docket No. N2022-1 on the Postal Service's proposed changes to the service standards for two Competitive products: USPS Retail Ground (RG) and Parcel Select Ground (PSG).¹⁶⁰ The Postal Service proposed upgrading the service standards for these products from the current 2- to 8-Day standard to a 2- to 5-Day standard.¹⁶¹ These changes would align RG and PSG service standards with the 2- to 5-day service standard for First-Class Package Service, which the Commission evaluated in another advisory opinion.¹⁶² The Postal Service asserted that the proposed changes would simplify the operational scheme for processing and transporting RG and PSG package volume within the contiguous United States by combining it with volume from First-Class Package Service.¹⁶³

In its advisory opinion, the Commission analyzed the estimated impact of the proposed changes on the Postal Service's operational flow, transportation network, financial condition, and the market for competitive parcels.¹⁶⁴ Based on this review, the Commission concluded that the proposed changes represent an improvement in service, are in the public interest, and would benefit mailers generally.¹⁶⁵ However, it expressed concerns that "the improvement in service may be at the expense of profitability, or may result in cannibalization of [Priority Mail] or other products."¹⁶⁶ The Commission also noted that the anticipated improvement in contribution depends on whether the Postal Service's analysis is based on realistic assumptions, and success of the proposed changes depend on results the Postal Service has not yet demonstrated.¹⁶⁷

The Commission made specific findings and recommendations to the Postal Service in its advisory opinion that are shown in Figure III-5.

Figure III-5

USPS Retail Ground (RG) and Parcel Select Ground (PSG) Advisory Opinion
Key Findings and Corresponding Recommendations

Findings		Recommendations
<ul style="list-style-type: none"> • There are immediate benefits from reducing the number of times RG and PSG pieces are handled during processing • The proposed changes may increase the need for manual processing and staff availability for facilities already failing to meet operating plans, which could lead to cost increases and disruptions in processing and transportation operations 	 OPERATIONAL FLOW	<ul style="list-style-type: none"> • Design a timeline describing all intended incremental changes to the processing network operations and how each change would contribute to a more efficient, shape-based processing network • Design a plan to monitor all implications of each incremental network change
<ul style="list-style-type: none"> • The projected transportation efficiencies—reduced reliance on air transportation and a more efficient surface transportation network—are not evident in the near term • The calculated transportation cost changes are based on numerous assumptions, several of which might be unrealistic 	 TRANSPORTATION & FINANCIAL CONDITION	<ul style="list-style-type: none"> • Conduct more robust research into the market segment that the upgraded RG and PSG service standards would attract to ensure that continued provision of low prices for potentially high-cost shipping of new volumes does not negatively impact contribution for RG and PSG products
<ul style="list-style-type: none"> • The planned changes have the potential for meeting market demand and enhancing service to customers sending larger packages • There is a lack of research targeted to current customers of the products at issue 	 MARKET FOR COMPETITIVE PARCELS	<ul style="list-style-type: none"> • Design and implement a plan to monitor the impact on shipping options in the competitive parcels market, especially on mailers who actually use RG and PSG • Design and implement a plan to monitor any volume diversion from Priority Mail and the impact on other Postal Service products

^a Source: Docket No. N2022-1, Advisory Opinion at 2-4, 74.

Critical Entry Time Changes for Periodicals

On November 30, 2022, the Commission issued an advisory opinion in Docket No. N2022-2 on the Postal Service's proposed changes to the CETs for certain categories of Periodicals mail.¹⁶⁸ The CET is the latest time of day that a mailpiece can be tendered to the Postal Service with that day counted when measuring its service performance.¹⁶⁹ The Postal Service proposed to standardize four of the five CETs for Periodicals mail, which range from 0800 to 1400, by moving them to the current earliest Periodicals mail CET of 0800.¹⁷⁰ It asserted that these changes would help simplify mail processing operations and more effectively allocate and use processing personnel and equipment.¹⁷¹

In its advisory opinion, the Commission analyzed the effect of the proposed CET changes on the Postal Service's workload planning and equipment utilization, as well as the impact on Periodicals mailers and recipients of Periodicals mail.¹⁷² Based on this analysis, the Commission made several key findings and recommendations for the Postal Service to consider before implementing the proposed CET changes for Periodicals mail, which are shown in Figure III-6.

Figure III-6

Critical Entry Time (CET) Changes for Periodicals Advisory Opinion Key Findings and Corresponding Recommendations

Findings		Recommendations
<ul style="list-style-type: none"> The proposed changes will likely improve Periodicals processing by allowing the Postal Service to more easily and accurately project Periodicals volumes However, “[h]istorical data illustrate that reasonably accurate daily volume projections are possible without these changes.” Given that the affected mail volume consists entirely of workshared categories of Periodicals mail, the equalization of CETs with non-workshared mail and diminution in time for mailers’ presortation activities could lead to changes in mailer behavior that mitigate the expected efficiency benefits for the Postal Service 	 WORKLOAD PLANNING	<ul style="list-style-type: none"> Continue to evaluate whether the proposed changes are necessary to achieve more effective workload planning Balance several competing factors, including the Postal Service’s inability to move mail as efficiently as it should, which impacts service performance, and the need to continue working with the impacted groups on efforts to ameliorate any negative financial or service impacts of the new CETs Analyze potential behavioral changes for Periodicals mailers and how those changes may impact expected net financial benefits and efficiency gains
<ul style="list-style-type: none"> The proposed changes will likely help the Postal Service use its equipment more efficiently, particularly the bundle/package sorting machines. However, any resulting cost savings may be limited because two of the three CETs being changed apply to Periodicals where the mailer has already completed the bundle sortation 	 EQUIPMENT UTILIZATION	<ul style="list-style-type: none"> Monitor implementation of the proposed changes to ensure that increased bundle/package sortation equipment capacity is used as planned
<ul style="list-style-type: none"> Some Periodicals mailers have indicated that they will not be able to meet the revised CETs and will likely have to add a service day to the current delivery of their mailpieces, which they contend will significantly impact costs and production schedules The Postal Service did not “analyze[] how the expected impact on Periodicals mailers would affect Periodicals volumes, worksharing, or the recipients of Periodicals mail.” 	 IMPACT ON STAKEHOLDERS	<ul style="list-style-type: none"> Acknowledge that the revised CETs will likely require some affected Periodicals mailers to add a service day to current delivery times Monitor and add sufficient Facility Access and Shipping Tracking appointments to respond to changes in mailer behavior, and work with mailers to ensure they are not hindered when tendering their mail Develop more granular data around tender times, and consider how to mitigate the impact of the proposed changes on particularly vulnerable segments of Periodicals mailers

Source: Docket No. N2022-2, Advisory Opinion at 2-4, 21-26.

Changes to Product Lists and the Mail Classification Schedule

Product Lists

The Postal Service and mail users may ask the Commission to change the Market Dominant and Competitive product lists by adding new products, removing current products, or transferring products between the lists.¹⁷³ The Commission reviews requests to change the product lists for compliance with 39 U.S.C. § 3642 and the Commission’s regulations in 39 C.F.R. part 3040.¹⁷⁴ The criteria for evaluating proposed changes to the product lists are described in 39 U.S.C. § 3642(b). First, a product may not be classified as Competitive if the Postal Service exercises sufficient market power so that it can do any of the following without risk of losing a significant level of business to other firms offering similar products:

- Set the product’s price substantially above costs
- Raise prices significantly
- Decrease quality
- Decrease output¹⁷⁵

Second, a product covered by the postal monopoly may not be transferred from the Market Dominant product list.¹⁷⁶ Third, the Commission must consider concerns of the private sector, product users, and small businesses.¹⁷⁷ When filing a request to modify the product lists, the Postal Service must include the contents and supporting justification required by 39 C.F.R. §§ 3040.131-132.

When adding a product to the Competitive product list, the proposed product must also meet the financial requirements of 39 U.S.C. § 3633, which are discussed in the “Rate Adjustments – Competitive Products” section above.¹⁷⁸

In FY 2022, the Commission approved the Postal Service’s requests to remove USPS Retail Ground and Parcel Return Service from the Competitive product list, along with related classification changes to First-Class Package Service and Parcel Select.¹⁷⁹ The Commission also approved the Postal Service’s requests to (1) transfer Post Office Box Service in selected additional locations from the Market Dominant to the Competitive product list and (2) add a new service identified as Inbound International Tracked Delivery Service to the Competitive product list as a category within the International Ancillary Services product.¹⁸⁰

The Commission considered the Postal Service’s request to transfer Bound Printed Matter (BPM) Parcels to the Competitive product list. BPM Parcels is a parcel-shaped Market Dominant product in the Package Services mail class.¹⁸¹ On March 26, 2021, the Postal Service filed a request asking the Commission to transfer BPM Parcels from the Market Dominant to Competitive product list.¹⁸² The Postal Service proposed naming this new Competitive offering “Parcel Select Bound Printed Matter” and include it as a subcategory of the existing Competitive product referred to as “Parcel Select.”¹⁸³

The Postal Service asserted that the proposed Parcel Select BPM offering would comply with requirements under 39 U.S.C. § 3642 and the Commission’s regulations.¹⁸⁴ It stated that mailers use BPM Parcels to ship inexpensive “light- to moderate-weight packages containing books, catalogs, and similar printed matter to individuals and businesses” by ground delivery.¹⁸⁵ It noted that BPM Parcels is an alternative to more general-purpose ground shipping products offered by competitors.¹⁸⁶

The Postal Service asserted that it does not exercise monopoly power over BPM Parcels because of “the existence of robust competition and large customers that are also competitors with their own end-to-end delivery networks.”¹⁸⁷ It stated that the Private Express Statutes do not apply to the BPM Parcels product because the statutory definition of a “letter” excludes bound books, catalogs, telephone directories, and other content shipped using this product.¹⁸⁸ The Postal Service also described customer views and the likely effect of the proposed transfer on small businesses.¹⁸⁹ It stated that “[t]ransferring BPM Parcels to the competitive product list will not violate any of the three standards in 39 U.S.C. § 3633.”¹⁹⁰

Six CHIRs and one Commission Information Request were issued, and the Commission considered hundreds of comments received. Based on the record, the Commission issued an order denying the Postal Service’s transfer request on February 10, 2022.¹⁹¹ The Commission noted that, for the product to be eligible for transfer, the Postal Service must not exercise sufficient market power over BPM Parcels that it can “effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output without risk of losing a significant level of business to other firms offering similar products.”¹⁹² To evaluate the Postal Service’s market power over BPM Parcels, the Commission conducted an expanded market segment analysis.¹⁹³ It concluded that “BPM Parcels operates in a narrow submarket of the general parcel market and has no effective competition from other firms within that submarket.”¹⁹⁴ Based on this dominant market share, the Commission concluded that the Postal Service exercises sufficient market power over the sale of BPM Parcels to preclude its transfer to the Competitive product list under 39 U.S.C. § 3642(b)(1).¹⁹⁵

Mail Classification Schedule

The Market Dominant and Competitive product lists are published in the MCS, which also includes rates, fees, and descriptions for each product. The MCS also contains applicable size and weight limitations for mail matter as part of the description for each product.¹⁹⁶ The Postal Service may propose changes to the MCS by filing a request, which the Commission reviews for compliance with its regulations.¹⁹⁷

In FY 2022, the Commission approved the Postal Service's proposed changes to the MCS concerning the product descriptions for Ancillary Services, which is on the Market Dominant product list, and International Money Transfer Service-Inbound.¹⁹⁸ The Commission is also considering proposed MCS changes related to Gift Cards and market tests of experimental products, which are described below.

Gift Cards

On May 16, 2022, the Commission initiated a proceeding to examine the potential need to modify the MCS regarding Gift Cards, which is a price category within the Competitive product Special Services – Greeting Cards, Gift Cards, and Stationery.¹⁹⁹ In FY 2021, the Postal Service initiated a pilot program allowing postal retail customers to exchange payroll and business checks for stored value Gift Cards at certain Post Offices.²⁰⁰ The Commission explained that examining the impact of the pilot program on the Gift Cards price category was necessary because the new form of accepted payment for Gift Cards (payroll and business checks), along with changes in the marketing and planned usage of the product, could potentially change the nature of the Greeting Cards, Gift Cards, and Stationery product.²⁰¹ It stated that during this proceeding, it will gather information “to explore and review the product at issue and may determine in the course of this proceeding whether the product at issue, or a defined sub-unit of that product, must be categorized as non-postal and therefore terminate.”²⁰² The Commission received six comments, which the Commission is currently considering.

Market Tests

The PAEA permits the Postal Service to conduct market tests of experimental products, which allows the Postal Service to offer products and services for a limited time period without being subject to the applicable requirements of 39 U.S.C. §§ 3622, 3633, or 3642, or the regulations promulgated under those sections.²⁰³ Before initiating a market test, the Postal Service must provide at least 30 days' advance notice to the Commission through a filing containing certain information.²⁰⁴ A proposed market test cannot proceed unless the experimental product satisfies three requirements:

- From the viewpoint of the mail users, the product is significantly different from all products

offered by the Postal Service within the 2-year period preceding the start of the test

- The introduction or continued offering of the experimental product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns
- The Postal Service identifies the product as either Market Dominant or Competitive²⁰⁵

A market test may not exceed 24 months in duration unless the Commission authorizes an extension for up to an additional 12 months.²⁰⁶ Generally, experimental product revenues may not exceed \$10 million in any fiscal year (in FY 2008 dollars, adjusted for CPI-U), unless the Commission grants an exemption.²⁰⁷ For each market test, the Postal Service must provide quarterly reports of volumes and revenues disaggregated by geographic area, as well as reports of attributable costs incurred in conducting the test.²⁰⁸

On January 4, 2022, the Commission authorized the market test of an experimental product called USPS Connect Local Mail, which offers an alternative to long-distance end-to-end mailing that business mailers may use to send documents locally with regular frequency.²⁰⁹ USPS Connect Local Mail provides same-day or next-day delivery, 6 days per week, with customers receiving same-day or next-day delivery based on when they enter their mail.²¹⁰ Three other market tests were active in FY 2022:

- Extended Mail Forwarding provides customers who submit a permanent change-of-address request the option to extend forwarding of all First-Class Mail, First-Class Package Service Commercial, and Priority Mail mailpieces beyond the 1-year forwarding period²¹¹
- Plus One is an advertising card that will be mailed as an add-on mailpiece with a USPS Marketing Mail Letters marriage mail envelope containing multiple advertising mailpieces²¹²
- Commercial PO Box Redirect Service redirects automated letters during mail processing from the Commercial PO Box listed on the mailpiece to a second Commercial PO Box²¹³

Conversions of Experimental Products to Permanent Offerings

The Commission's regulations permit the Postal Service to add an experimental product to the Market Dominant or Competitive product list as a new, permanent offering by filing a request under 39 U.S.C. § 3642 and 39 C.F.R. part 3040, subpart B.²¹⁴ In FY 2022 and early FY 2023, the Postal Service filed requests to add the Plus One, Extended Mail Forwarding, and USPS Connect Local Mail experimental

products as new permanent offerings.²¹⁵ The Commission approved the requests to convert Plus One and Extended Mail Forwarding to permanent offerings.²¹⁶ However, it dismissed without prejudice the Postal Service’s initial request to convert USPS Connect Local Mail to a permanent offering because the request did not “contain the information required by law and necessary for the Commission to determine the appropriateness of converting USPS Connect Local Mail to a permanent product offering...”²¹⁷ It provided the Postal Service the opportunity to refile a compliant request, which the Postal Service submitted on November 9, 2022.²¹⁸ This proceeding is currently pending before the Commission.

Public Inquiries

Public inquiry dockets are established by the Commission to provide a venue to explore issues of general interest. Six public inquiry dockets were before the Commission in FY 2022 that dealt with matters related to service performance, the value of the postal and mailbox monopolies, the cost of the Universal Service Obligation (USO), exemptions to the letter monopoly, and suspended Post Offices.

Modification of Service Performance Measurement Plan

Service performance results measure the percentage of mailpieces delivered by the Postal Service within the applicable service standards, which are the expected days-to-delivery for particular mailpieces. Service performance for Market Dominant products is measured using Service Performance Measurement (SPM) systems. In FY 2018, the Commission approved the Postal Service’s request to implement new internal SPM systems for several Market Dominant products, including products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.²¹⁹ The Postal Service SPM Plan summarizes the current state of its SPM systems.²²⁰ The Commission’s regulations require the Postal Service to file a notice with the Commission at least 30 days prior to planned implementation of changes to the SPM Plan.²²¹

On April 22, 2022, the Postal Service filed a notice with the Commission proposing three changes to the current SPM Plan:

- A revision to how the long haul exception impacts “Start the Clock” events
- The inclusion of Reply Mail in the measurement of Single-Piece First-Class Mail Letters/Flats/Cards
- A revision to the CET applicable to Periodicals²²²

After reviewing the record and considering comments received, the Commission approved the proposed changes to the long haul exception, the inclusion of Reply Mail in measurement, and non-substantive grammatical revisions.²²³ However, the Commission did not approve the proposed change to the CET for Periodicals.²²⁴ The Commission evaluated whether the proposed change constituted a nationwide change in the nature of postal services under 39 U.S.C. § 3661(b) that would require the Postal Service to request an advisory opinion from the Commission before implementing the change.²²⁵ It analyzed the relevant factors and found that the proposed change constituted a nationwide change in the nature of postal services because the change would have a meaningful impact on service, alter the nature of postal services, and affect service over a broad geographical area.²²⁶ The Commission directed that if the Postal Service intends to implement the proposed CET change for Periodicals, it must first file a request for an advisory opinion under 39 U.S.C. § 3661(b) and 39 C.F.R. part 3020.²²⁷

The Postal Service subsequently filed this request for an advisory opinion on the proposed Periodicals CET change in Docket No. N2022-2, which is discussed in the “Nature of Service Cases” section above.

Value of Postal and Mailbox Monopolies

In the Annual Report, the Commission estimates the value of the Postal Service’s combined letter and mailbox monopolies, which together are referred to as the postal monopoly.²²⁸ The Annual Report includes a separate estimate of the value of the mailbox monopoly alone.²²⁹ The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence.²³⁰ The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes.²³¹

On October 1, 2019, the Commission initiated a public inquiry docket to evaluate the methodology for estimating the value of the postal and mailbox monopolies.²³² It explained that the current methodology estimates the hypothetical lost profit to the Postal Service if potential competitors were allowed to enter and compete in the Postal Service’s letter and mailbox monopolies.²³³ The Commission sought comments and suggestions for changing and enhancing the current estimation methodology “to account specifically for recent Postal Service data changes, and for any other aspects of the monopolies estimation methodology.”²³⁴

On February 10, 2021, the Commission filed a non-public library reference with supporting workpapers that explained the Commission’s current methodology for estimating the value of the postal and mailbox monopolies.²³⁵ It explained that interested persons would have access to this

analysis when preparing comments in this proceeding.²³⁶ The Commission sought comments “on any or all aspects of existing and potential methodology changes.”²³⁷ In total, nine CHIRs were issued, and six sets of initial comments followed by three sets of additional comments were received. This proceeding is pending before the Commission.

Universal Service Obligation Valuation Methodology

On December 10, 2020, the Commission initiated a public inquiry docket to consider potential changes to the Commission’s methodology for estimating the cost of the USO (USO Cost).²³⁸ The Commission last considered this methodology in its 2008 report on the USO and postal monopoly.²³⁹ In this report, the Commission explained that the Postal Service’s overarching USO is set forth in 39 U.S.C. § 101(a), which requires the Postal Service to “provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”²⁴⁰

In the USO Report, the Commission estimated the USO Cost, which it updates each year in the Annual Report, based on the methodological approach adopted in the USO Report.²⁴¹ This methodology was based on economic, technical, legislative, and societal considerations in 2008, which have potentially changed since then.²⁴² Thus, the Commission established Docket No. PI2021-1 to revisit the assumptions underlying this methodology to ensure that the Commission’s estimated USO Cost reflects the current environment in which the Postal Service operates.²⁴³

The Commission sought public comment on any and all aspects of the methodology for estimating the USO Cost, including suggestions for revising any outdated assumptions and input on what data or analytical methods would be necessary to incorporate suggested changes into the methodology.²⁴⁴ It identified frequency of delivery and maintaining small Post Offices as two USO Cost components with valuation assumptions that appear ripe for revisiting.²⁴⁵ On January 12, 2021, the Postal Service filed a motion asking that the Commission provide a detailed explanation of the current methodology for estimating the USO Cost, including workpapers showing the underlying calculations from the most recent estimate, to facilitate more meaningful comments.²⁴⁶ The Commission issued an order granting the motion and stated it will issue a library reference to include in this proceeding as soon as practicable.²⁴⁷

To facilitate potentially updating or improving selected inputs into the Commission’s calculation of the USO Cost, three sets of CHIRs were issued, and responses were filed by the Postal Service. This proceeding is currently pending before the Commission.

Letter Monopoly Exemptions

In Docket No. RM2020-4, the Commission initiated a rulemaking to determine whether the Commission should promulgate regulations to carry out the requirements of 39 U.S.C. § 601.²⁴⁸ Finding it necessary to seek further input from the public, the Commission issued an order initiating Docket No. PI2021-2 on July 2, 2021.²⁴⁹ The purpose of this public inquiry was to focus the Commission’s section 601 inquiry on two issues. First, the Commission wanted to determine whether it should adopt Postal Service regulations administering certain sections of section 601.²⁵⁰ It explained that before the PAEA was enacted, the Postal Service issued regulations concerning the restrictions on the private carriage of letters.²⁵¹ However, some of these regulations were modified and superseded when the PAEA was adopted.²⁵² The Commission stated that it is interested in exploring (1) whether certain Postal Service regulations implement current statutory exemptions in section 601 and (2) whether the Commission should adopt these and other regulations to clarify these statutory exemptions.²⁵³

Second, the Commission sought to identify which private carrier services fall within the scope of section 601(b)(3).²⁵⁴ Specifically, the Commission sought comments on what services were “described by regulations of the United States Postal Service...that purport to permit private carriage by suspension of the operation of this section’ as of July 1, 2005.”²⁵⁵ The Commission also asked for suggestions regarding what regulations may be necessary to enumerate in clear terms all instances where private carrier services fall within the scope of section 601(b)(3).²⁵⁶

The Commission reviewed comments filed in this proceeding and Docket No. RM2020-4.²⁵⁷ Based on its review, the Commission concluded that it received adequate input from the public to propose regulations necessary to carry out section 601.²⁵⁸ Accordingly, the Commission closed this public inquiry docket on November 24, 2021,²⁵⁹ and simultaneously issued an NPR proposing new regulations, which were ultimately finalized as discussed in the “Rulemakings Amending Commission Regulations” section above.

Resolving Suspended Post Offices

On February 3, 2022, the Commission established a proceeding concerning suspended Post Offices.²⁶⁰ A Post Office suspension occurs when the Postal Service stops operations at a Post Office because of an emergency or similar situation.²⁶¹ The Commission explained that it has monitored the Postal

Service’s progress in resolving suspended Post Offices for multiple fiscal years, primarily via its ACR review proceedings.²⁶² In recent ACDs, the Commission expressed concern regarding the large number of suspended Post Offices and the apparent lack of commitment by the Postal Service in addressing and resolving them.²⁶³ Accordingly, the Commission initiated this public inquiry docket “to identify and address issues impeding the Postal Service’s progress in resolving these suspended post offices in a timely manner.”²⁶⁴ It sought input from the public regarding suggested procedures or courses of action for how the Postal Service may expeditiously resolve suspended Post Offices.²⁶⁵ This proceeding is currently pending before the Commission.

Service Performance Dashboard

In February 2022 the Commission announced that it was in the process of developing a new online service performance dashboard as part of its ongoing efforts to promote transparency by making its public data more accessible and usable.²⁶⁶ The Commission initiated a public inquiry docket to seek public input on this service performance dashboard, as well as on other questions of data accessibility and usability.²⁶⁷ The beta version of the Commission’s service performance dashboard provided visual data and interactive tools allowing the public to view service performance results for many Market Dominant mail products and product components at the national level.²⁶⁸ The Commission received five sets of comments, which the Commission stated that it would take under advisement as it proceeds with its efforts to improve transparency.²⁶⁹

On April 6, 2022, the PSRA was enacted which, among other requirements, directed the Postal Service to develop and maintain a publicly available online “dashboard” that provides weekly service performance data for Market Dominant products.²⁷⁰

Proposals to Change Analytical Principles

Analytical principles are economic, mathematical, or statistical theories or assumptions the Postal Service applies when producing reports it submits to the Commission each year, such as the ACR.²⁷¹ In these reports, the Postal Service must use only those analytical principles previously accepted by the Commission and applied in the most recent ACD, unless a different analytical principle has been subsequently approved through a Commission proceeding.²⁷²

To add or change an accepted analytical principle, any interested person, including the Postal Service or a Public Representative, may submit a petition asking the Commission to initiate a proceeding to consider proposed changes.²⁷³ Petitions are filed with the Commission as numbered proposals.

Proposals must be designed to improve the quality, accuracy, or completeness of data or data analysis in the reports that the Postal Service submits each year to the Commission.²⁷⁴

During FY 2022, the Commission considered 13 Postal Service proposals and 1 proposal filed by UPS. The Commission issued final orders for all but two proposals in FY 2022 or early FY 2023. These two proposals are currently pending before the Commission, along with a proceeding to set priorities for future data collection and analytical work. This docket and major proposals are described below.

Completed Proposals

Docket No. RM2020-13 (Proposal Six)

Proposal Six²⁷⁵ would establish a new methodology for estimating variabilities for three mail processing cost pools representing automated letter and flat sorting operations.²⁷⁶ The cost pools included in Proposal Six involve labor expenses associated with the automated distribution of letters and flats, which totaled \$2.3 billion in FY 2019.²⁷⁷ The Postal Service explained that the main factor determining labor requirements for sorting operations is called total pieces fed (TPF), which is the number of piece handlings performed to distribute pieces to their destinations, in the Management Operating Data System (MODS).²⁷⁸ The current methodology partitioned these mail processing cost pools into activities assumed to be 100 percent volume-variable, and other activities assumed to be non-volume-variable.²⁷⁹ It was based on “a general assumption that mail processing costs should vary in proportion with the volume of mail or number of articles processed.”²⁸⁰

The current methodology has been used since Docket No. R71-1, and its origins predate the Postal Reorganization Act and the development of the automated mail processing technologies described in Proposal Six.²⁸¹ The Postal Service stated that the former Postal Rate Commission previously declined to adopt any empirical models for mail processing variability because of data and econometric issues.²⁸² However, the Postal Service explained that several factors merit reexamining variabilities for automated letter and flat sorting operations, including volume changes, the reliability of automated counts of mailpiece handlings, and the availability of machine utilization data.²⁸³

On January 26, 2022, the Commission issued an order denying Proposal Six.²⁸⁴ It found that the applicable statutory requirements had not been satisfied because “the Postal Service has not shown that the proposed revisions to the methodology for estimating volume variabilities would result in a significant improvement in the attribution of costs.”²⁸⁵ The Commission cited to several issues relating to data, modeling, and operations.²⁸⁶ The Commission explained that although the quality of TPF data in MODS has generally improved, the workhours data may still be subject to measurement error, and

the Postal Service has not attempted to clean the data at the initial stage of developing the analysis data set.²⁸⁷ The Commission noted that it has consistently stated that data cleaning should be done at the shift or daily level, but Proposal Six continues the practice of performing data cleaning after data aggregation to the monthly level, potentially allowing for errors to be masked by aggregation.²⁸⁸ In addition, to clean the already aggregated data, the Postal Service applies the productivity screening approach that has a number of flaws and is unacceptable in its current state.²⁸⁹

The Commission also identified several modeling and operational issues in Proposal Six. First, the Commission found that the Postal Service did not properly justify its choice of lagged TPF variables that are included into the model to account for a delayed response of workhours to change in volume.²⁹⁰ Second, it stated that the Proposal Six econometric model likely excludes important control variables that are correlated with volume, which results in biased variability estimates.²⁹¹ Third, it noted that modeling the AFSM 100 operations at the aggregate level without controlling for some differences between subtypes of these operations is problematic.²⁹² The Commission also found that the assumptions underlying the estimated variabilities were not well-justified, and minor changes in these arbitrary assumptions lead to the different variability estimates.²⁹³

Docket No. RM2022-8 (Proposal Two)

In Docket No. RM2020-2 (Proposal Ten), the Postal Service proposed, and the Commission rejected, revisions aimed at updating and improving the attribution of postmaster costs.²⁹⁴ The goal of the postmaster variability analysis was to create a model that can capture how postmaster costs vary with volume through the Work Service Credit cost driver.²⁹⁵ The Commission raised issues with Proposal Ten and ultimately rejected it because the Postal Service “did not show that its proposed revisions to postmaster cost variability and attribution would result in a significant improvement in the attribution of costs nor were necessitated by the public interest.”²⁹⁶

However, the Commission offered two alternative methods that would remedy the deficiencies it identified in Proposal Ten’s approach, and it encouraged the Postal Service to resubmit an updated postmaster variability analysis.²⁹⁷ Proposal Two was filed in response to the Commission’s directive.²⁹⁸

The Postal Service sought to update Proposal Ten by adopting one of the alternative methods proposed by the Commission.²⁹⁹ In terms of impact, Proposal Two’s decline in postmaster cost variabilities would cause unit production costs to fall by 1.98 cents for Competitive products, 0.20 cents for First-Class Mail, and 0.10 cents for USPS Marketing Mail.³⁰⁰ As a result of Proposal Two, total volume variable costs, including Competitive product costs, would decline by \$255.238 million.³⁰¹

The Commission approved Proposal Two, noting that it addressed and resolved most of the issues with the prior proposal. The Commission stated that “[i]n terms of improving the quality of the Postal Service’s postmaster costing methodology, unlike the existing methodology, Proposal Two produces results that closely reflect the operational realities of postmaster costs.”³⁰²

RM2022-11 (Proposal Five)

In Proposal Five,³⁰³ the Postal Service proposed two sets of revisions to the analytical principles that apply to Contract Delivery Service (CDS) costs.³⁰⁴ First, the proposed changes would update the cost proportions used to estimate accrued CDS costs.³⁰⁵ The Postal Service sought to use Transportation Contract Support System data, updated on an annual basis, to update the CDS cost proportions for two general ledger accounts.³⁰⁶ Although accrued costs are not separately identified in the general ledger, these two accounts represent the majority of CDS costs.³⁰⁷ CDS costs accrued in other accounts are treated in the same manner as the non-CDS costs in those accounts.³⁰⁸

Second, the proposal would revise the distribution key used to attribute CDS costs to products.³⁰⁹ The Postal Service had been using the Transportation Cost System (TRACS) Intra-SCF distribution factors to distribute volume variable CDS costs to products.³¹⁰ However, in response to Office of Inspector General recommendations, the Postal Service conducted a literature review of available CDS materials and determined that both operational protocols and field observation indicated that similar mail volumes are delivered on CDS and rural routes.³¹¹ The Postal Service also noted that CDS suppliers and rural carriers perform similar activities.³¹²

The Commission approved Proposal Five, finding that the proposed annual updates to the Intra-District and Intra PD&C cost proportions “represent an improvement to the quality and accuracy of data because they allow the Postal Service to account for changes in the cost proportions.”³¹³ The Commission also found that the rural distribution key represents a better proxy than the current Intra-SCF distribution factors used to distribute volume variable CDS costs to products.³¹⁴

RM2022-13 (Proposal Six)

In Proposal Six, the Postal Service proposed to use additional sampling of peak season trips within the TRACS in order to develop a separate distribution key for the costs in peak season highway accounts.³¹⁵ The Postal Service explained that currently the distribution keys for peak season highway contract costs are based on TRACS data for regular contracts calculated by quarter.³¹⁶ Proposal Six would replace the usage of regular contract data to determine the distribution of peak costs with a new system based on sampling peak season highway trucks.³¹⁷ According to the Postal Service, this proposal had two objectives: (1) supplement the current sampling of regular contracts with additional

sampling of peak season contract routes; and (2) separate peak season costs out of the regular cost pools and into a peak season cost pool and provide a separate distribution key for this cost pool.³¹⁸

The Commission approved Proposal Six because it found that the proposed analytical methodology, including the recommended application of the resulting peak distribution key in the FY 2022 ACR along with proposed future modifications, “improves the quality, accuracy, and completeness of sampling of peak season highway routes in the first quarter of the fiscal year and of developing a separate distribution key for peak season highway costs in the first quarter of the fiscal year.”³¹⁹ The Commission noted that Proposal Six would obtain peak season highway contract samples to distribute peak season highway costs.³²⁰ Consequently, the resulting distribution keys will be more accurate than the peak distribution keys derived under the current methodology because they will reflect more representative samples.³²¹

However, the Commission found that the “sample” data set was not representative of every account indicated in the Postal Service’s petition.³²² The Commission described the importance of tracking whether the proposed increase in sample size results in increased variation in the accounts analyzed when determining future peak distribution keys.³²³ Therefore, the Commission approved Proposal Six subject to the requirements that (1) the Postal Service provide peak season coefficients of variation in ACR filings; and (2) beginning with the FY 2023 ACR, the Postal Service identify the total number of accounts associated with peak season TRACS tests and provide an explanation if the number of accounts is fewer than four.³²⁴

Other proposals

In FY 2022, the Commission approved Postal Service proposals to:

- Update and improve the variabilities for certain types of purchased highway transportation to reflect recent operational changes³²⁵
- Update First-Class Mail Presort Letters cost avoidance models filed in the ACR³²⁶
- Modify the analytical principle relating to the calculation of the passthroughs of USPS Marketing Mail Carrier Route Flats³²⁷
- Improve the treatment of surface and air transportation costs in the International Cost and Revenue Analysis (ICRA)³²⁸
- Revise the First-Class Mail Letters mail processing cost model to disaggregate metered mail into machinable and non-machinable categories through modeling³²⁹

- Replace the System for International Revenue and Volume, Outbound, and International Origin Destination Information System sampling estimates and the Global Business System Dispatch estimates used in the existing RPW reporting methodology with granular census data³³⁰
- Further streamline and improve the ICRA methodology³³¹

In Docket No. RM2020-9, the Commission rejected UPS Proposal One, which sought to change how the Postal Service accounts for peak season costs in its reports filed with the Commission.³³² UPS Proposal One was described in the *FY 2021 Annual Report*.³³³

Pending Dockets

Two proposals are pending before the Commission. Proposal One seeks to update and improve the methodology for calculating attributable city carrier, letter route, street time costs.³³⁴ This would be accomplished through a new study of city carrier street time costs that relies upon expanded operational carrier data and employs an overall top-down model as requested by the Commission in Docket No. RM2015-7.³³⁵

The Postal Service stated that comparing the variabilities between the old model and new models shows three primary patterns.³³⁶ First, the overall level of variability produced by the new top-down model is lower, reflecting the more recent lower volume levels.³³⁷ Second, the overall variability decline is caused by a reduction in the variabilities for the volume types associated with Market Dominant letters and flats mail.³³⁸ Third, that volume variability decline is offset, in part, by a net increase in the parcel variabilities.³³⁹ The overall changes in variabilities result in lower costs for letters and flats and higher costs for parcels.³⁴⁰ Reflecting this change in variabilities, the unit costs for Market Dominant products fall while the unit costs for Competitive products rise.³⁴¹ Multiple rounds of comments have been received.

The Commission is also considering a proposal that would implement changes in RPW reporting methodology in terms of sample design, size, and estimation procedures.³⁴²

Docket No. RM2022-1 (Priorities for Future Data Collection and Analytical Work)

On October 8, 2021, the Commission established a proceeding to set priorities for future data collection and analytical work.³⁴³ The purpose of this proceeding is “to consider possible improvements to the quality, accuracy, or completeness of data” the Postal Service provides in its reports filed with the Commission.³⁴⁴ The Commission explained that, at a time when the Postal Service remains under considerable financial pressure, having accurate estimates of product costs

is necessary to understand the net revenue consequences of the rates and discounts that the Postal Service selects.³⁴⁵ Setting priorities for future data collection and analytical work will help ensure accurate cost estimates and identify analytical principles that need to be changed. For example, in UPS Proposal One, the Commission found that accelerating studies on peak-season costs is appropriate and timely.³⁴⁶

The Commission stated it will develop an inventory of data collection and analysis needs, comprehensively evaluate these needs, and devise a plan for meeting these needs.³⁴⁷ It sought comments proposing areas that need further research and identifying improvements in data collection and analysis that should be implemented in the near term and long term.³⁴⁸ For near term proposals, comments were requested on which research topics should be prioritized and what time frame would be feasible for completing the research.³⁴⁹ Initial and reply comments have been submitted to the Commission, and this proceeding is currently pending before the Commission.

Other Proceedings

Several other proceedings were before the Commission in FY 2022, which are described below.

Complaint Regarding Postal Service's 10-Year Strategic Plan

A complaint may be filed with the Commission by any interested person who believes the Postal Service is not complying with certain requirements of Title 39.³⁵⁰ Within 90 days after a complaint is filed, the Commission will issue an order that either (1) finds that the complaint raises at least one material issue of fact or law and begins proceedings on the complaint or (2) dismisses the complaint.³⁵¹

In FY 2022, the Commission considered a complaint concerning the Postal Service's 10-Year Strategic Plan, which described changes that the Postal Service planned to make to address various challenges related to its financial health, business and operating models, customer needs, service performance, and changes to mail volumes and the mail mix.³⁵² On October 7, 2021, 20 states and commonwealths (the States) filed a complaint alleging that the Postal Service's failure to submit its 10-Year Strategic Plan to the Commission for an advisory opinion violates 39 U.S.C. § 3661(b).³⁵³ Under section 3661(b), before making a change in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis, the Postal Service must seek an advisory opinion from the Commission within a reasonable time before the proposed change becomes effective.³⁵⁴

The States alleged that the Postal Service should have sought an advisory opinion from the Commission under section 3661(b) before adopting the 10-Year Strategic Plan because it implements changes in the nature of postal services with nationwide effect.³⁵⁵ They asserted that the Postal Service's failure to request an advisory opinion harms the States and their residents because the lack of input from the Commission and public on the 10-Year Strategic Plan "removes a critical safeguard designed to ensure Postal Service accountability."³⁵⁶ The States asked that the Commission order the Postal Service to request an advisory opinion on the entire 10-Year Strategic Plan to "ensure the Commission's review of these significant changes and provide the States and the broader public the opportunity to comment on them."³⁵⁷

On October 27, 2021, the Postal Service filed a Motion to Dismiss the States' complaint for failing to raise a material issue of fact or law that falls within the scope of the Commission's jurisdiction under 39 U.S.C. § 3662.³⁵⁸ It noted that the 10-Year Strategic Plan itself does not create any changes in the nature of postal services and instead announces anticipated strategies the Postal Service expects to pursue during the next several years.³⁵⁹ The Postal Service stated that it has sought or will seek an advisory opinion for the strategies in the 10-Year Strategic Plan that will make changes falling within the scope of section 3661.³⁶⁰ The Postal Service asserted that the 10-Year Strategic Plan in its entirety does not fall within section 3661(b)'s scope, that section 3661(b) does not require the Commission to immediately review all initiatives anticipated in the 10-Year Strategic Plan, and that dismissing the complaint would be consistent with policies underlying section 3661(b).³⁶¹

The States opposed the Postal Service's Motion to Dismiss on November 10, 2021.³⁶² They claimed that the 10-Year Strategic Plan describes a series of strategies that would implement fundamental changes to postal services and operations and thus fall within the scope of section 3661(b).³⁶³ The States took the position that the changes in the 10-Year Strategic Plan implicate section 3661(b) because the 10-Year Strategic Plan describes changes in the "nature of postal services" that will affect service on a substantially nationwide basis.³⁶⁴

On December 17, 2021, the Commission issued an order granting the Motion to Dismiss the States' complaint.³⁶⁵ It found that "39 U.S.C. § 3661(b) does not require the Postal Service to request an advisory opinion on the entirety of the 10-Year Strategic Plan" for several reasons.³⁶⁶ First, the Commission determined that the 10-Year Strategic Plan, by itself, was not a change impacting service and thus did not fall within the scope of section 3661(b).³⁶⁷ Second, the Commission noted that the Postal Service had not yet announced or determined the effective dates for most of the initiatives in the 10-Year Strategic Plan.³⁶⁸ The Commission stated that section 3661(b) and the Commission's

regulations “grant the Postal Service substantial discretion regarding the timing of a request for an advisory opinion and certainly do not require a request to be made before an initiative’s effective date has been established.”³⁶⁹

In addition, the Commission discussed various other factors that supported dismissal of the States’ complaint, including the Postal Service’s discretion with regard to the scope of its requests for advisory opinions and the fact that the Commission had conducted proceedings reviewing specific initiatives contained in the 10-Year Strategic Plan.³⁷⁰ The Commission addressed and rejected the remaining arguments in opposition to dismissal of the States’ complaint and concluded that the complaint failed to raise any material issues of fact or law and thus should be dismissed.³⁷¹

Flats Operations Study

The PSRA requires the Commission, in consultation with the Postal Service Inspector General, to conduct a study concerning flats operations.³⁷² The purpose of the report is to comprehensively identify the causes of inefficiencies when collecting, sorting, transporting, and delivering flats, as well as quantify the effects of the volume trends, investment decisions, excess capacity, and Postal Service operational inefficiencies on flats attributable costs.³⁷³ The PSRA requires the Postal Service, upon the Commission’s request, to consult with the Commission and provide Commission staff access to Postal Service facilities, as well as information and records necessary to conduct this study.³⁷⁴ The Commission must prepare and submit a report containing the findings from the flats study to Congress and the Postmaster General by April 6, 2023.³⁷⁵ To facilitate the receipt of data and information from the Postal Service as part of carrying out the study and producing the report, the Commission initiated Docket No. SS2022-1 on July 14, 2022.³⁷⁶

Court of Appeals Cases

A person adversely affected or aggrieved by the Commission’s final order or decision may appeal the order or decision to the D.C. Circuit within 30 days after it becomes final.³⁷⁷ On February 25, 2022, UPS filed a petition for review of Order No. 6048 rejecting UPS Proposal One.³⁷⁸ On October 13, 2022, the D.C. Circuit issued an order holding the appeal in abeyance pending the issuance of a final order in Docket No. RM2022-2 concerning institutional costs, which is described in the “Rulemakings Amending Commission Regulations” section above.³⁷⁹

On April 28, 2022, the Postal Service filed a petition for review of the Commission’s directive in the FY 2021 ACD to increase prices for BPM Parcels “by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Package Services class through the issuance

of the FY 2022 ACD.³⁸⁰ The Postal Service simultaneously filed a motion for reconsideration of this directive with the Commission.³⁸¹ The Commission granted the Postal Service's motion and rescinded this directive from the FY 2021 ACD.³⁸² Consequently, the D.C. Circuit issued an order dismissing the Postal Service's petition for review.³⁸³

International Postal Policy

The Secretary of State is responsible for formulating, coordinating, and overseeing international postal policy, as well as concluding postal treaties such as those involving the UPU.³⁸⁴ Headquartered in Berne, Switzerland, the UPU is an international treaty organization responsible for facilitating high-quality universal mail service at affordable rates. Although the U.S. Department of State has primary authority over international postal policy, it must request the Commission's views on whether any treaty, convention, or amendment that establishes a rate or classification for a Market Dominant product is consistent with the Market Dominant Rate System.³⁸⁵ The U.S. Department of State must ensure that each treaty, convention, or amendment concluded is consistent with the Commission's views unless there is a foreign policy or national security concern.³⁸⁶

In FY 2022, the Commission also served in an advisory capacity to the U.S. Department of State in the formulation of U.S. government positions in the UPU. These positions mainly related to ongoing work on remuneration for all international mail products and UPU reform towards the achievement of U.S. international postal policies in 39 U.S.C. § 407(a). The Commission also contributed to interagency deliberations led by the National Security Council to promote the opening of the UPU wider postal sector players and participated in the Federal Advisory Committee on International Postal and Delivery Services chaired by the U.S. Department of State.

In addition, the Commission gave presentations on the PSRA at the UPU Conference on Postal Regulation in May 2022 and at the Forum on Postal Regulation of the Postal Union of the Americas, Spain, and Portugal (PUASP) in June 2022. The Commission also represented the U.S. Government in the PUASP Committee on Postal Regulation, which promotes regulatory frameworks in the postal sector of the Americas region that ensure efficient, quality services in fulfillment of a USO.



CHAPTER 4

UNIVERSAL SERVICE OBLIGATION & POSTAL MONOPOY

Background

In this chapter, the Commission provides its annual estimates of the cost of the Universal Service Obligation (USO) and the value of the postal monopoly. In its *Report on Universal Postal Service and the Postal Monopoly*, the Commission stated that the overarching USO of the Postal Service is set forth in 39 U.S.C. § 101(a), which states that the Postal Service must “provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” The USO has seven principal attributes: (1) geographic scope, (2) product range, (3) access, (4) delivery, (5) pricing, (6) service quality, and (7) an enforcement mechanism.³⁸⁷

The postal monopoly is the Postal Service’s exclusive right to carry and deliver certain types of mail and deposit mail into mailboxes.³⁸⁸ Unlike the cost of the USO (USO Cost), the Commission is not required to estimate annually the value of the postal monopoly. The Commission provides estimates for both the USO Cost and a provisional value of the postal monopoly to present a balanced perspective.³⁸⁹

In 2008, the Commission estimated the USO Cost and the value of the postal monopoly in the USO Report. The Commission updates these estimates each year in the Annual Report. Beginning in FY 2018, the net cost of the Postal Inspection Service was included in the estimate of the USO Cost.

Estimated USO Cost

The PAEA requires the Commission to estimate the costs incurred by the Postal Service in providing three types of public services or activities:³⁹⁰

- Postal services to areas of the nation the Postal Service would not otherwise serve
- Free or reduced rates for postal services as required by Title 39
- Other public services or activities the Postal Service would not otherwise provide but for the requirements of law

The USO Cost is the total amount of costs incurred by the Postal Service in providing these public services or activities. Table IV-1 illustrates the estimated USO Cost for the last 5 fiscal years, FY 2017 through FY 2021.³⁹¹

**Table IV-1:
Estimated USO Cost (\$ Millions)**

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
 Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve	826	765	760	706	675
 Estimated Revenue Not Received Due to Free or Reduced Rates	2,034	1,964	1,895	1,786	1,712
 Other Public Services or Activities ^a	3,323	3,167	3,131	2,916	2,356
TOTAL	6,184	5,896	5,785	5,409	4,743

^a The FY 2017 figure does not include the net cost of the Postal Inspection Service.
 The sum of columns may not equal total due to rounding.

In this chapter, the Commission provides estimates of the costs incurred by the Postal Service in providing the public services or activities under 39 U.S.C. § 3651(b)(1), describes related statutory requirements, and explains the methodologies used to estimate these costs.³⁹²

On December 10, 2020, the Commission initiated a public inquiry in Docket No. PI2021-1 and requested suggestions for modifications and enhancements to the methodology of estimating the cost of the USO to help the Commission determine whether all of the assumptions underlying the methodology remain valid.³⁹³ Materials provided by the Postal Service in response to information requests to date have been used to make refinements in the calculation of some elements of the cost of the USO, as described below.

Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve

The Commission must estimate the costs incurred by the Postal Service in providing: postal services to areas of the Nation where, in the judgment of the Postal Regulatory Commission, the Postal Service either would not provide services at all or would not provide such services in accordance with the requirements of [Title 39] if the Postal Service were not required to provide prompt, reliable, and efficient services to patrons in all areas and all communities, including as required under the first sentence of [39 U.S.C.] section 101(b)[.]³⁹⁴

The Commission determines these costs by combining the estimated costs of maintaining small Post Offices, the Alaska Air Subsidy, and Group E Post Office (PO) Boxes. Table IV-2 compares the costs of each one from FY 2017 through FY 2021.

As shown in Table IV-2, the estimated total cost of providing postal services to areas of the nation the Postal Service would not otherwise serve increased each year between FY 2017 through FY 2021. This increase is mainly due to the annual increase in clerk costs for maintaining small Post Offices.

Table IV-2:
Estimated Costs of Providing Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve (\$ Millions)

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
 Maintaining Small Post Offices ^a	663	610	590	551	526
 Alaska Air Subsidy	142	136	135	120	114
 Group E Post Office Boxes	21	20	35	35	34
TOTAL	826	765	759	706	675

^a The Maintaining Small Post Offices cost figures are higher than previous Annual Reports due to updates and refinements described in Table IV-3.
 The sum of columns may not equal total due to rounding.

Maintaining Small Post Offices

The Postal Service maintains small Post Offices, which are generally located in rural or remote areas, as part of its duty “to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.”³⁹⁵ The Postal Service uses Cost Ascertainment Group (CAG) classifications A to L to categorize Post Offices based on revenue generated.³⁹⁶ Small Post Offices are those that fall within CAG K and L classifications.³⁹⁷

The Commission determines the costs of maintaining small Post Offices by estimating the amount the Postal Service would save if rural carriers on the street provided the same services as those provided at small Post Offices, as well as the amount of revenue lost from existing CAG K and L PO Boxes. The Commission uses the Rural Mail Count to estimate the cost of rural carriers providing retail services and for new delivery service to those who would no longer have a CAG K and L PO Box.³⁹⁸

Table IV-2 lists the estimated costs of maintaining small Post Offices from FY 2017 through FY 2021. The estimated costs of maintaining small Post Offices incorporate the main categories of employees who may perform functions that were previously performed primarily by Postmasters.³⁹⁹

Table IV-3 disaggregates the costs of maintaining small Post Offices by component and illustrates the recent large shifts among these components. The clerks’ and Postmasters’ costs for the 5-year period in Table IV-3 are higher than previous Annual Reports due to two changes in the calculations: cost data from the National Consolidated Trial Balance are used, and clerk piggyback costs are added to clerks’ salary costs.⁴⁰⁰ Rural carrier delivery services and PO Box revenues forgone in Table IV-3 are also higher than previous Annual Reports due to the updating of the current number of PO Boxes used to calculate these costs. Additionally, rural carriers providing retail services costs are also lower than figures shown in previous Annual Reports due to the current lower number of estimated retail visits used to calculate costs.⁴⁰¹

Table IV-3:
Estimated Cost Savings from Closing CAG K and L Post Offices
Derivation of Updated Costs of Maintaining Small Post Offices (\$ Millions)

CAG K and L Post Offices Annual Operating Costs	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
CAG K and L Postmasters ^a	83	73	71	67	64
Postmaster Relief/Leave Replacements	21	20	20	22	21
Clerks ^b	674	629	607	564	543
Total Potential Operating Costs Saved (If CAG K and L Post Offices Closed)	778	722	698	654	627
Cost Savings Adjustment ^c	FY Cost Savings Adjustments				
Rural Carrier Now Provides Retail Services Cost ^d	12	13	10	8	8
Rural Carrier Now Provides Delivery Service Cost ^e	55	52	51	49	49
Post Office Boxes Revenue Forgone ^f	49	47	47	45	44
Total FY Cost Savings Adjustment	116	112	108	103	101
Cost of Maintaining Small Post Offices (Potential Operating Costs Saved Less Cost Savings Adjustments)	663	610	590	551	526

Note: The sum of individual row components may not equal totals due to rounding. Estimated costs of Maintaining Small Post Offices for FY 2017 through FY 2019 differ from previous Annual Reports because a more complete data source for Postmasters' and clerks' costs was identified from the USPS National Consolidated Trial Balance (NCTB) data and the addition of piggyback costs for clerks. Additionally, estimated costs of Maintaining Small Post Offices inputs differ due to updated inputs for the number of occupied Market Dominant PO Boxes and retail visits incorporated into the FY 2017 through FY 2021 calculations. An upcoming library reference in Docket No. PI2021-1 will detail the sources and methodologies used.

^a Postmasters costs' include piggyback costs for overhead and other personnel and non-personnel-related costs.

^b Clerks costs' include piggyback costs for overhead and other personnel and non-personnel-related costs.

^c The cost savings adjustments are used to reduce the potential operating costs saved, as there would presumably be an increase in rural carrier costs and PO Box revenue forgone if the small Post Offices were to close.

^d The estimated fiscal year number of CAG K and L retail transactions was approximated using the most currently available data for FY 2021, FY 2020, and FY 2019. The approximated FY 2019 number of retail visits was used as a proxy for FY 2017 and FY 2018 to develop the estimated cost of retail services now provided by rural carriers if small Post Offices were to close.

^e The current number of occupied Market Dominant CAG K and L PO Boxes was used to estimate, for the fiscal years shown, the number of new delivery points for those CAG K and L PO Box customers who would now no longer have delivery to the PO Box if small Post Offices were to close.

^f The current number of occupied Market Dominant CAG K and L PO Boxes was used with the respective fiscal year Market Dominant PO Box unit revenue to develop estimated revenue forgone.

Sources for this table are based on information filed in past Annual Compliance Reports (ACRs) and in Docket No. PI2021-1. See FY 2020 Annual Report at 49.

National Consolidated Trial Balance Data (Clerks and Postmasters operating costs): Commission analysis of respective fiscal year ACRs NCTB data (sub-account 104 and 105 for clerks, sub-account 101 for Postmasters) for CAG K and L Post Offices provided in ACR Library Reference NP18.

Postmaster Relief/Leave Replacements: Library Reference 5, Cost Segments and Components Reconciliation to Financial Statement and Account Reallocation, tab "seg 1" in the respective fiscal year ACRs.

Rural Carrier Retail Unit and Delivery Service Costs: Rural Mail Count is based on the following: Library Reference 40 in Docket No. ACR2017 and Docket No. ACR2018; and Rural Mail Count updates for FY 2019 through FY 2021 are provided in CHIR responses (No. 4 and No. 6) in Docket No. PI2020-1.

Clerks Costs by Function (for Piggyback cost development): CAG K and L clerk function proportions are based on the activities of sampled clerks in the In-Office Cost System Post Offices in CAGs K and L. FY 2017 clerk function proportions were provided in Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 21, March 5, 2018. FY 2019 and FY 2020 clerk function proportions were provided in Docket No. PI2021-1, Response to CHIR No. 1, question 3. b. FY 2021 clerk function proportions were provided in Docket No. PI2021-1, CHIR No. 3, question 2.

Piggyback Factors: Library Reference 24 in the respective fiscal year ACRs.

Retail Visits: The number of approximated CAG K and L Post Offices retail transactions inputs for FY 2019 and FY 2020 was provided in Docket No. PI2021-1, Response to CHIR No. 1, question 2.b.; FY 2021 was provided in Docket No. PI2021-1, Response to CHIR No. 3 question 1.a.-1.b.

PO Boxes: Docket No. PI2021-1, Response to CHIR No. 1, question 2.c.; Docket No. PI2021-1, Response to CHIR No. 3, question 1.d. Market Dominant PO Box unit revenues were developed from Library Reference 4 Market Dominant billing determinants in respective fiscal year ACRs.

Alaska Air Subsidy

Alaska Bypass Service allows mailers to ship goods such as food and other cargo on pallets directly to rural customers in Alaska. Commercial airline carriers deliver goods on pallets to hub airports in either Anchorage or Fairbanks. Smaller airline companies or independent pilots then break down these pallets and deliver the goods to remote communities accessible only by air, which are commonly called bush sites. The shipped goods “bypass” the Postal Service’s network.

With Alaska Bypass Service, the Postal Service pays for the cost of air transportation from hub airports to bush sites. The difference between this cost of air transportation from hub airports to bush sites and the average cost of ground transportation, if it were available, is called the Alaska Air Subsidy. The Commission previously concluded that the Alaska Air Subsidy is part of the USO.⁴⁰² In FY 2021, there was an increase of \$5.7 million over the FY 2020 Alaska Air Subsidy cost. The larger \$14.1 million increase in the Alaska Air Subsidy cost between FY 2018 and FY 2019 was due to increases in air volumes and fuel costs.⁴⁰³

Group E Post Office Boxes

Group E PO Boxes are provided free of charge to customers when the Postal Service does not offer carrier delivery to their physical address.⁴⁰⁴ To meet its USO delivery obligation,⁴⁰⁵ the Postal Service makes Group E PO Boxes available “for the purpose of resolving potential discrimination issues arising from instances in which the Postal Service chooses to provide, or not to provide, customers with a carrier delivery option.”⁴⁰⁶ In FY 2011, the Commission approved treating the cost of providing Group E PO Boxes as an institutional cost to more equitably distribute the USO Cost. The Commission also concluded that this treatment was analogous to, and consistent with, the treatment of the Alaska Air Subsidy.⁴⁰⁷ Consequently, the Commission included the cost of Group E PO Boxes, which are primarily facility-related, in estimating the USO Cost. In FY 2021, servicing Group E PO Boxes cost approximately \$21 million. Beginning in FY 2020, the Group E PO Boxes cost was impacted by a new Postal Service facility analysis that decreased measured PO Box space costs.⁴⁰⁸

Free or Reduced Rates

The Commission must estimate the costs incurred by the Postal Service in providing “free or reduced rates for postal services as required by [Title 39.]”⁴⁰⁹ The Commission estimates these costs by combining preferred rate discounts net of costs and the negative contribution of Periodicals (Periodicals Losses). Table IV-4 shows the estimated revenue not received as a result of preferred rate discounts and Periodicals losses between FY 2017 through FY 2021.

Table IV-4:
Estimated Revenue Not Received Due to Free or Reduced Rates (\$ Millions)

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
 Preferred Rate of Discounts Net of Costs ^a	1,207	1,189	1,223	1,172	1,104
 Periodicals Losses	828	775	671	614	608
TOTAL	2,034	1,964	1,895	1,786	1,712

^aThe FY 2018 through FY 2021 Preferred Rate Discounts Net of Costs figures include In-County Periodicals. At the time of the USO Report, In-County Periodicals had little impact on the results of that analysis and were not included. See USO Report, Appendix F, section 3 (Robert H. Cohen and Charles McBride, *Estimates of the Current Costs of the USO in the U.S.*, at 18-19 n.20). The sum of columns may not equal total due to rounding.

Preferred Rate Discounts Net of Costs

39 U.S.C. § 3626 requires the Postal Service to provide reduced rates for preferred rate categories in USPS Marketing Mail, Periodicals, and Library Mail.⁴¹⁰ The Commission determines estimated revenue not received by quantifying the difference in revenue between mail that is statutorily required to receive a discount and the revenue the Postal Service would have received if those mailpieces were not discounted. This increase in revenue is adjusted for potential decreases in costs. If not discounted, rates for these mailpieces would be higher, resulting in a loss of volume and, consequently, lower costs. In FY 2021, preferred rate discounts net of costs were \$1.207 billion.

Periodicals Losses

Periodicals losses are the annual amount by which Periodicals' attributable cost exceeds revenue.⁴¹¹ The price cap on Market Dominant products does not allow the Postal Service to fully recover Periodicals losses through rate increases.⁴¹² It is assumed that, if not for the price cap, the Postal Service would raise Periodicals rates to the level necessary to cover attributable cost.⁴¹³ Accordingly, the Commission considers these losses to be part of the USO Cost.

In FY 2021, Periodicals losses were \$828 million. FY 2021 revenue from Periodicals only covered 53.2 percent of the attributable cost of the Periodicals class, a decrease from 56.9 percent in FY 2020.⁴¹⁴

The Periodicals class has routinely failed to cover its attributable cost in the preceding fiscal years.⁴¹⁵ On a unit basis, both In-County and Outside County Periodicals costs increased in FY 2021.⁴¹⁶ The Commission took steps to address this issue by finalizing rules adopting changes to the regulations governing the Market Dominant ratemaking system.⁴¹⁷ Specifically, for non-compensatory mail classes such as Periodicals, the final rules provide the Postal Service an additional 2 percentage points of rate authority per class per fiscal year.⁴¹⁸ Similar to CPI-based rate authority, if all of this authority is not immediately used, it may be banked for use in future years. The first price increase for Periodicals using the new rate authorities took effect August 29, 2021, only one month before the end of FY 2021.⁴¹⁹ As such, the data evaluated in this section essentially reflects the operation of the original price cap's more restrictive statutory parameters.

Other Public Services or Activities

The Commission must estimate the costs incurred by the Postal Service in providing “other public services or activities which, in the judgment of the Postal Regulatory Commission, would not otherwise have been provided by the Postal Service but for the requirements of law.”⁴²⁰ These costs include the costs of providing Six-Day Delivery (rather than Five-Day Delivery), uniform rates for First-Class Mail and Media Mail/Library Mail, and the net cost of the Postal Inspection Service. Table IV-5 shows the costs of providing these public services or activities from FY 2017 through FY 2021.

Table IV-5:

Other Public Services or Activities the Postal Service Would Not Provide but for Legal Requirements
(\$ Millions)⁴²¹

PUBLIC SERVICE OR ACTIVITY		FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
	 Six-Day Delivery	2,642	2,518	2,465	2,259	2,204
	 Uniform First-Class Mail Rates	66	52	71	99	52
	 Uniform Media Mail/Library Mail Rates	76	94	124	97	99
	 Postal Inspection Service (Net Cost) ^a	541	503	471	462	N/A
TOTAL	3,324	3,167	3,131	2,916	2,355	

^a The Commission began including the net cost of the Postal Inspection Service in FY 2018.

Six-Day Delivery

Since 1984, appropriations bills have included a provision requiring the Postal Service to continue providing Six-Day Delivery.⁴²² On April 6, 2022, the PSRA codified the Six-Day Delivery requirement in revised 39 U.S.C. § 101(b).⁴²³ The cost of providing Six-Day Delivery is measured as the estimated savings the Postal Service would achieve by providing residential delivery service 5 days a week instead of 6 days a week. Table IV-5 shows the cost of Six-Day rather than Five-Day Delivery from FY 2017 through FY 2021.⁴²⁴ In FY 2021, the estimated cost of providing Six-Day Delivery was approximately \$2.642 billion, an increase from the estimated FY 2020 cost of \$2.518 billion.

Uniform Rates

Rates for First-Class Mail must be uniform throughout the United States.⁴²⁵ To determine the cost of uniform First-Class Mail rates, the Commission estimates the increased contribution that the Postal Service would earn if dropship discounts were allowed for workshared First-Class Mail. Table IV-5 shows the estimated cost of uniform First-Class Mail rates. The estimated cost of uniform First-Class Mail rates increased from \$52 million in FY 2020 to \$66 million in FY 2021.

Media Mail/Library Mail rates must be uniform for mail of the same weight and must not vary with the distance transported.⁴²⁶ The Commission estimates the cost of the distance component by assuming that without this requirement, Media Mail/Library Mail would provide the unit contribution of Bound Printed Matter, a proxy that does not have this restriction. The Commission estimates the additional unit contribution by determining the difference between the unit contributions of Bound Printed Matter and Media Mail/Library Mail. Media Mail/Library Mail total volumes are then multiplied by the estimated additional unit contribution to produce an estimate of the total additional contribution if Media Mail/Library Mail rates were not uniform.

In FY 2021, the estimated cost of providing uniform Media Mail/Library Mail rates was approximately \$76 million, a decrease from the estimated FY 2020 cost of \$94 million. The decrease in cost between FY 2020 and FY 2021 was due to an increase in the Media Mail/Library Mail unit contribution and a decrease in the unit contribution of Bound Printed Matter in FY 2021.⁴²⁷

Postal Inspection Service

In the *FY 2019 Annual Report*, the Commission began including the net cost of the Postal Inspection Service in the estimated cost of the USO as an “other public service or activity” under 39 U.S.C. § 3651(b)(1)(C).⁴²⁸ The Postal Inspection Service enforces more than 200 federal laws that relate to crimes involving the postal system, its employees, and its customers.⁴²⁹ The mission of the Postal Inspection Service is “to support and protect the [Postal Service] and its employees, infrastructure, and customers; enforce the laws that defend the nation’s mail system from illegal or dangerous use; and ensure public trust in mail.”⁴³⁰ Law enforcement activities of the Postal Inspection Service involve defending the nation’s mail from illegal or dangerous use by, for example, combatting illegal narcotics, mail fraud, and mail and package theft.⁴³¹ The costs of the Postal Inspection Service are partially offset by fines collected and restitution, which are subtracted from the total cost to calculate the net cost.

In FY 2021, the net cost of the Postal Inspection Service was approximately \$541 million, an increase from the estimated FY 2020 net cost of \$503 million.⁴³²

Value of the Postal Monopoly

The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes.⁴³³ The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence.⁴³⁴ The combined letter and mailbox monopolies are together referred to as the postal monopoly. The Annual Report includes estimates of both the value of the postal monopoly and the value of the mailbox monopoly alone.

The value of the postal monopoly is an estimate of the profit that the Postal Service would potentially lose if both the mailbox and letter monopolies were lifted and the Postal Service was subject to competition for mail currently covered by the postal monopoly.

The value of the mailbox monopoly is estimated based on contestable mail volumes in Periodicals, select USPS Marketing Mail prepared in carrier route sequence, and Parcel Select.⁴³⁵ Changes in the volume of contestable mail affect the number of profitable routes the competitor could deliver to and the amount of profit the Postal Service would lose if the competitor captured the contestable mail on those routes.

The Commission uses the model described in the USO Report to update current estimates.⁴³⁶ The model assumes that the competitor will “win” or “skim” all of the contestable mail on a route if the revenue it would earn from these mail volumes is greater than the fixed and attributable costs related to the volumes. The model also assumes the competitor would deliver only local and regional mail to focus on the most profitable delivery routes and avoid the need for significant capital to establish a processing and transportation network.

Even with the postal monopoly, competitors still deliver material (*e.g.*, newspapers’ weekly advertising supplements) that might otherwise be sent via the Postal Service. If the mailbox monopoly alone were lifted, competitors could deliver and deposit into mailboxes products that fall outside of the letter monopoly, such as Periodicals, unaddressed saturation mail, catalogs exceeding 24 pages, and letters exceeding 12.5 ounces. The letter monopoly prevents competitors from delivering certain mail that is directed to a specific person or address, such as First-Class Presorted Letters/Postcards and USPS Marketing Mail Letters. If the letter monopoly were also lifted, this restriction would not apply.

The model currently evaluates the competitor’s entry for each route regardless of the extent of route clustering. Focusing on routes in the same cluster or area would reduce the competitor’s fixed costs.⁴³⁷ Also, because the model assumes that the competitor does not incur mail processing costs, values of the postal and mailbox monopolies do not reflect the cost of sorting to carrier routes, which

is necessary to deliver mail presorted to the 5-digit ZIP Code. The model also does not account for mailers’ switching costs or brand loyalty.⁴³⁸ In addition, bulk parcels, which are Competitive products, are considered contestable mail.

Previous Annual Reports presented only estimates of the postal and mailbox monopolies based on the same assumed mid-range (base case model) values for four key variables: (1) the volumes that an entrant could contest; (2) the entrants’ costs; (3) the entrants’ delivery frequency; and (4) the discount that the entrant offers to entice customers. The base case model for calculating both estimates of the postal and mailbox monopolies assumes that an entrant would offer a 10 percent discount, have a 10 percent cost advantage (be 10 percent more efficient), and skim 100 percent of the contestable mail on profitable routes.⁴³⁹ The FY 2017 through FY 2021 postal and mailbox monopoly estimates calculated using the base case model assumptions are presented in Table IV-6. The large reduction in the value of the postal monopoly between FY 2020 and FY 2021 is due primarily to the decrease in contestable Parcel Select Mail volume.⁴⁴⁰

**Table IV-6: Base Case Model
Values of the Postal and Mailbox Monopolies⁴⁴¹ (\$ Billions)**

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017 ^a
 Postal Monopoly	3.10	3.82	4.72	4.53	5.34
 Mailbox Monopoly	0.20	0.86	0.94	1.03	1.35

^a FY 2017 values are not comparable to values for FY 2018 through FY 2021. FY 2018 through FY 2021 values reflect the transfer of First-Class Package Service to the Competitive products category and are adjusted to the respective fiscal year delivered mail volume estimates (as estimated by the City Carrier Cost System (CCCS) and the Rural Mail Count and Rural Carrier Cost System (RCCS)). The development of the postal and mailbox monopolies estimates for FY 2017 and earlier are consistent with the original methodology, which included First-Class Presort Parcels with First-Class Presort Letters and First-Class Presort Flats; moreover, estimated delivered mail volumes were not adjusted to the CCCS and RCCS national estimates.

The Commission also presents the FY 2021 estimates of the postal and mailbox monopolies based on alternative assumed values (“low” and “high” models) for the four key variables (in addition to the assumed base case model mid-range values).⁴⁴²

Table IV-7 illustrates the impact on the FY 2021 monopoly estimates given variations in the assumptions of the four key variables: (1) the amount of discount offered by the entrant; (2) the

entrant’s cost advantage; (3) the number of delivery days; and (4) the percentage of contestable mail skimmed on profitable routes.⁴⁴³ The monopoly estimates calculated using the “low” and “high” values of the four key variables are unlikely to represent the actual value of the monopolies but may be helpful to conceptualize the lower and upper bounds of reasonable estimates. Given the uncertain nature of how competition would evolve in the absence of the postal and mailbox monopolies, variations in the assumptions are possible. Table IV-7 illustrates the sensitivity of the monopoly estimates to potential changes in the key model input variables’ values.

**Table IV-7:
FY 2021 Value of the Postal and Mailbox Monopolies⁴⁴⁴ (\$ Billions)**

	Low	Base Case	High
 Postal Monopoly	0.13 ^a	3.10 ^b	7.43 ^c
 Mailbox Monopoly	0.04 ^d	0.20 ^e	0.60 ^f

^a Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%
^b Discount 10%, Delivery Days 3, Entrant’s Cost Advantage 10%, Contestable Volume 100%
^c Discount 0%, Delivery Days 1, Entrant’s Cost Advantage 30%, Contestable Volume 150%
^d Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%
^e Discount 10%, Delivery Days 1, Entrant’s Cost Advantage 10%, Contestable Volume 100%
^f Discount 0%, Delivery Days 1, Entrant’s Cost Advantage 30%, Contestable Volume 150%

The estimates of the postal and mailbox monopolies were also developed using the low and high model assumptions that were last calculated in 2008 when the USO Report was issued.⁴⁴⁵ In the USO Report, the mid-range values of the base case model were believed to be realistic ranges for the four key model input variables.⁴⁴⁶

As compared to the postal and mailbox monopoly estimates in the USO Report, except for the high postal monopoly scenario, the FY 2021 estimates were lower for all key variable assumption scenarios due to decreases in the amount of Parcel Select contestable mail and the total amount of contestable USPS Marketing Mail Enhanced Carrier Route mail since the USO Report was issued.⁴⁴⁷



CHAPTER 5

PUBLIC AFFAIRS

The Commission’s Office of Public Affairs and Government Relations (PAGR) is the primary resource in support of public outreach and education; complaint processing; media relations; and liaison with the U. S. Congress, the Administration, the Postal Service, and other government agencies. This office informs and advises commissioners and Commission staff on legislative matters and policies related to the Commission and the Postal Service in addition to coordinating the preparation of both congressional testimony and responses to congressional inquiries concerning Commission policies and activities. PAGR is the primary office assisting the general public.

Consumer Relations - Comments and Inquiries

In FY 2022, PAGR received over 5,800 questions, suggestions, comments, and inquiries. The greatest percentage of these were received through the “Contact PRC” link on the [Commission’s](#) website and by phone. The remaining correspondence was submitted via hardcopy mail.

Table V-1: FY 2022 Number of Inquiries Received

Quarter	5181  E-mail	150  Letter	536  Phone	 TOTAL 5867
1	1588	26	127	
2	1175	41	151	
3	1234	40	117	
4	1175	43	142	

Commission Order No. 195 directs the Postal Service to respond to rate and service inquiries that the Commission forwards to the Postal Service Office of the Consumer Advocate within 45 days. The order also requires the Postal Service to file a monthly report summarizing the general nature of inquiries they received. These reports are available on the Commission’s website at www.prc.gov, under the [USPS Reports](#) tab.

Inquiries by Issue

Consistent with prior reporting, mail that is delayed remains the leading complaint type. There was a slight increase in inquiries related to the local post office requesting a resident to relocate the mail receptacle to a different location and suspending delivery service if the relocation was not completed

by the resident. A slight increase was also observed with inquiries involving lobby access, employee behavior, and Post Office Box fees.

**Table V-2:
FY 2022 Number of Inquiries Received by Issue**

Top Issue	Total
Delayed Mail	89
Mailbox Requirement/Location	43
Misdelivered Mail	29
Retail Lobby Access - Not Open 24-hours	21
Employee Behavior	16
PO Box Rental Fee/Service	13
Missing Packages	6

Inquiries by Location

In FY 2022, a review of the inquiries referred to the Postal Service for escalated resolution revealed that an above average number of service-related inquiries originated in the Illinois 1, Georgia, New York 1, Delaware-Pennsylvania, Washington, and Texas 3 Postal Service Districts.

**Table V-3:
FY 2022 Number of Inquiries Received by Postal Service District**

District	Number Received	Top Issue
Illinois 1	22	Lobby – Signage - Incorrect
Georgia	15	Mail being returned to sender in error
New York 1	15	Lost/missing packages
DE-PA	14	Misdelivery – receiving mail for another address
Washington	13	Local post office suspended delivery
Texas 3	12	Mailbox lock changed and resident was not provided a mailbox key
MA-RI	11	Lobby hours changed from 24-hour service
North Carolina	11	Carrier not delivering mail on a regular basis
South Carolina	11	Incorrect information on USPS.com
Texas 1	11	Local post office systemically requesting mailbox relocation

Postal
Museum



Alexander
Hamilton

Soldier
Secretary
Icon

CHAPTER 6

ADMINISTRATION

Over the past three years, the Commission, through its Office of the Secretary and Administration (OSA), has been on a mission to rebuild its administration systems and services to modernize and standardize the environment to support the agency's core mission and improve user experience. OSA ensures that the Commission has the physical, financial, technological, and human capital infrastructure needed to accomplish its mission. Responsibilities include financial management, records management, human resources management, equal employment opportunity, administrative support, and information technology.

During FY 2022, OSA implemented significant infrastructure and administrative improvements, to accomplish the goals of the Commission's *2017-2022 Strategic Plan*, particularly for Goal 3 (provide an optimal internal infrastructure to support the management of priorities, workload, and emerging requirements) and Goal 4 (recruit, develop, and retain a diverse, high-performing workforce).

The following sections provide a summary of the Commission's major accomplishments as well as challenges in the major functional areas handled by its OSA office.

Financial Management and Budget

Securing additional budget resources remains an integral part of enabling the Commission to fulfill its mission and the additional responsibilities created by the PSRA. The Commission has been underfunded for several years and has stretched its resources to maintain productivity with a staff of fewer than 80 people by seeking ways to leverage its limited resources effectively.

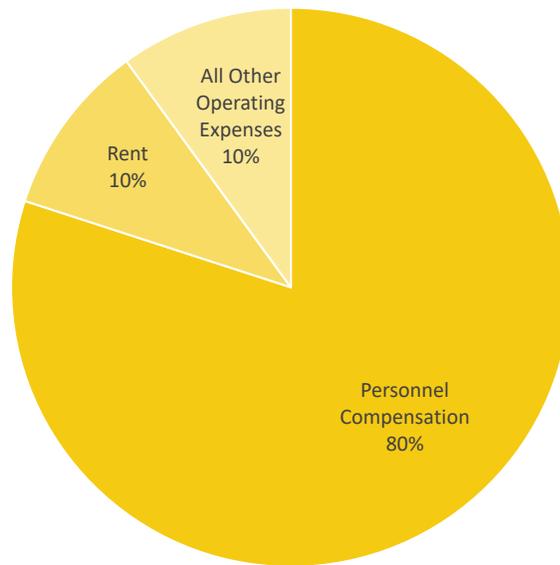
The Commission successfully managed two different budget processes this past year. In the first half of the fiscal year, the Commission worked with the Office of Management and Budget (OMB) to receive a favorable budget passback to support the Commission's modernization and growth efforts and meet the demands of the agency's growing and evolving workload. Midway through the year, passage of the PSRA resulted in significant transformation to the Commission's internal budget formulation and submission process by removing the Commission from the annual Federal appropriations process. As a result of the PSRA, the Commission submitted its budget request directly to the United States Postal Service's Board of Governors for review and approval in August for FY 2023.

Because this change to the Commission's budget mechanism did not occur until mid-FY 2022, the Commission's funding for FY 2022 was based on its appropriation of \$17,510,000. With the addition of prior year balances, the Commission's total expenditures totaled \$18,430,169. The Commission is

drawing down its prior year balances to right-size its operations and remedy past years of deferred investments.

The majority of the Commission’s budget is dedicated to fund personnel compensation and its lease. This past year, the Commission successfully negotiated a significant reduction in lease costs, as well as the ability to consolidate its office space based on future workforce needs, as part of its lease renewal. Personnel compensation accounted for 80 percent of expenditures; rent accounted for 10 percent of expenditures; and the remaining 10 percent of expenditures was for all other operating expenses including IT, consulting services, and communications. Figure VI-1 below shows the distribution of the Commission’s expenditures for FY 2022.

**Figure VI-1:
FY 2022 Annual Budget Expenditures**



As additional resources were necessary to remedy years of underinvestment in information technology (IT) infrastructure, the Commission sought and received an award from the Technology Modernization Fund (TMF). The TMF, authorized by the Modernizing Technology Government Act of 2017, enables agencies to reimagine and transform the way they use technology to deliver services to the American public in an effective, efficient, and secure manner. In FY 2022, the Commission received a transfer from the TMF in the amount of \$2,645,000 to fund critical cybersecurity and IT infrastructure projects. The Commission will use these funds to adopt cloud-based applications and develop critical platforms that are essential to its regulatory role. This dedicated funding will allow the Commission to commit to the necessary but costly IT investments that would be difficult to accommodate within its normal budget.

Data and Records Management

Data and records management has been an ongoing priority for the Commission. As a data-centric agency, establishing data management programs will allow for streamlined business functions to enhance productivity and improve public access to Commission information. These programs serve as an essential component of the Commission's commitment to transparency, accountability, and open government. The Commission welcomes Freedom of Information Act (FOIA) inquiries: staff received and processed 45 FOIA requests during FY 2022.

As part of its data management initiatives, the Commission renewed its modernization efforts to replace its legacy electronic filing and docketing system with a secure, cloud-based application. This system serves as the repository for most of the Commission's records and the new system will provide a secure and user-friendly system for use by the Postal Service and stakeholders to file documents with the Commission, including commercially sensitive business data reviewed and used by the Commission to conduct mission-critical functions. The new system will also function as a research tool, helping users to search through the Commission's databases more efficiently and accurately; these enhancements will help support the Commission's regulatory workload. During this fiscal year, the Commission opened 320 new dockets, up from 303 in FY 2021, and the docket section staff processed a total of 3,530 documents, a decrease from last fiscal year's total of 4,353.

The Commission also focused on enhancing its administration of its responsibilities relating to records management, privacy, and compliance. The Commission advanced its records management program by implementing an agency-wide records management policy and training program for agency staff to assist in administering its Commission Records Schedule. The Commission updated its public privacy policy, located at <https://www.prc.gov/privacy>; began development of governance for internal use of controlled unclassified information (CUI), personally identifiable information (PII) and business identifiable information (BII) in staff and vendor records; and set up templates for privacy impact assessments, privacy threshold analyses, and system of records notices (SORNs). The Commission issued a SORN related to its collection of employee health and vaccination information.

Workforce Development

The Commission’s workforce is its primary asset, and Goal 4 of the 2017-2022 *Strategic Plan* focuses on the recruitment, development, and retention of a diverse, high-performing workforce. Despite the challenges presented by the COVID-19 pandemic, the Commission was able to successfully support its workforce and recruit 13 additional employees while being almost exclusively remote.

The Commission issued a new Telework Policy and Flexible Work Schedule Policy that enhanced workplace flexibilities based on the agency’s experience during the COVID-19 pandemic and its successful transition to a mostly virtual environment. The Commission officially returned to its physical workplace in September 2022 while maintaining a safe work environment, with flexible telework policies in place to accommodate the changing needs of its newly hybrid workforce. Employees shared their approval of the Commission’s approach: in the Commission’s Federal Employee Viewpoint Survey (FEVS) results, 100 percent of employees who participated reported that they are protected from health and safety hazards on the job and 95.8 percent of those employees reported that their supervisor supports their need to balance work and other life issues.

The Commission’s continues to receive outstanding FEVS results, outscoring government-wide responses in every measured area. The Commission has a highly engaged workforce, scoring 86 percent on the Employee Engagement Index, compared to 71 percent government-wide, with strong scores on the three subcomponents: Leaders Lead, 76 percent vs. 59 percent; Intrinsic Work Experience, 86 percent vs. 73 percent; and Supervisors, 94 percent vs. 80 percent. The Commission reported zero challenge areas, and reported its top strengths as related to supervisors, customer service, and employee contributions.

Table VI-1: Top Five Strengths from the FEVS

Q36	Employees are protected from health and safety hazards on the job	100.0%
Q47	My supervisor supports my need to balance work and other life issues	95.8%
Q48	My supervisor listens to what I have to say.	95.85
Q49	My supervisor treats me with respect.	95.8%
Q20	Employees in my work unit contribute positively to my agency's performance.	95.3%
Q19	Employees in my work unit meet the needs of our customers.	94.8%

The Commission continued its commitment to equal employment opportunity and representation in its initiatives to recruit, develop, and retain a skilled, high-achieving, and diverse workforce. Overall Commission demographics are comparable to the U.S. Census National Civilian Labor Force (CLF), and almost all ethnic and racial groups have higher levels of representation at the Commission when compared to the CLF, except for Hispanic and Latino male representation. In FY 2022, women and minorities accounted for 58 percent and 34 percent, respectively, of the Commission's workforce. Representation of women in leadership remained positive, with women filling 53 percent of the agency's executive positions.

The Commission's Diversity and Inclusion (D&I) Committee has successfully engaged employees with various informative essays, announcements, and virtual events highlighting diversity and inclusion awareness. During FY 2022 the D&I Committee spearheaded the initiative to use gender-inclusive language in Commission communications and hosted its first on-site event to bring staff together for National Hispanic Heritage Month.

Information Technology

Technology modernization remains a critical priority for the Commission. The Commission is engaged in a multi-year IT infrastructure optimization initiative due to the TMF award and support of the TMF Board. Based on this award, the Commission is investing in a replacement of its legacy electronic docketing system, a new user-friendly public-facing website, development of a data management system, and critical cybersecurity upgrades.

The Commission has made significant progress in its mitigation of cybersecurity risk over the past year. Owing to the TMF award, the Commission was able to begin a targeted reduction of its vulnerabilities by taking advantage of modern services, removing legacy devices, and moving its infrastructure to the cloud. The TMF award has also allowed the Commission to move towards implementing changes needed to comply with the President's Executive Order 14028, *Improving the Nation's Cybersecurity*, and OMB Memorandum M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*.

During this past fiscal year, the Commission implemented several new services that significantly reduce risk to the organization, its systems, and infrastructure and provide for more efficient, cost-effective operations. In particular:

- Streamlining all services to one Microsoft platform eliminated management of various on-premises messaging and file services

- Integrating phone service with staff laptops not only reduced provider costs and equipment maintenance, but also provided the Commission with more resilience in the event of a disaster or emergency.
- Moving infrastructure to the cloud enabled the Commission to discontinue its maintenance of a distant alternate processing facility
- Disposing of obsolete and legacy equipment significantly reduced the Commission's cyberattack surface

The Commission is committed to hardening its cybersecurity posture and has an active, flexible, and improved program for managing cybersecurity risk. The integration of Cybersecurity and Infrastructure Security Agency (CISA) shared services significantly increased the Commission's ability to detect and respond to unauthorized devices in real time. In addition, using CISA services enabled the Commission to meet Federal asset tracking requirements and incorporate a component of Zero Trust. Having completed a Security Assessment and Authorization in FY 2021 means that the Commission can now continuously monitor its General Support System and test one-third of the control set annually, in compliance with Federal Information Security Modernization Act requirements. As a very small agency with only one dedicated cybersecurity professional, these accomplishments serve as a testament to the talent and dedication of our public servants who continuously make improvements with limited resources.

With new security threats continually emerging, the Commission continues to enhance its security practices and policies to better protect sensitive information and to educate employees about the importance of safeguarding the Commission's IT Infrastructure, applications, and data.



ENDNOTES

1 Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).

2 39 U.S.C. § 3651(a).

3 39 U.S.C. § 3642(b)(1). Postal Service products are categorized as either Market Dominant or Competitive. “Product” means “a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied[.]” 39 U.S.C. § 102(6).

4 39 U.S.C. § 3642(b)(1). Market Dominant products are grouped within five classes of mail: First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services. 39 U.S.C. § 3621(a).

5 39 U.S.C. § 3642(b)(1). Examples of Competitive products include Priority Mail, Priority Mail Express, and First-Class Package Service.

6 39 U.S.C. § 3622(b).

7 Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43); *see* Docket No. RM2007-1, Errata Notice Concerning Order No. 43, October 31, 2007 (Docket No. RM2007-1, Errata).

8 Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763).

9 Postal Regulatory Commission, *Annual Report to the President and Congress*, Fiscal Year 2021, January 25, 2022, at 18-21 (*FY 2021 Annual Report*).

10 39 U.S.C. § 3651(a).

11 39 U.S.C. § 3633(a)(3). Institutional costs are the costs that remain after attributing all reliably identifiable, causally-related product-level and group-level costs to products. Docket Nos. RM2017-1 and RM2022-2, Supplemental Notice of Proposed Rulemaking and Order Initiating the Third Review of the Institutional Cost Contribution Requirement for Competitive Products, November 18, 2021 (Order No. 6043). Requirements for Competitive products are discussed in the “Rate Adjustments – Competitive Products” section below.

12 Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019, at 18 (Order No. 4963).

13 *See* Order No. 43 at 91, 138; Docket No. RM2007-1, Errata.

14 39 U.S.C. § 3633(b).

15 *Id.*

16 *See* Docket No. RM2012-3, Order Reviewing Competitive Products’ Appropriate Share Contribution to Institutional Costs, August 23, 2012 (Order No. 1449).

17 *See* Order No. 4963.

18 *United Parcel Serv., Inc. v. Postal Regul. Comm’n*, 955 F.3d 1038, 1041, 1049 (D.C. Cir. 2020). These proceedings were described in past Annual Reports. *FY 2019 Annual Report* at 18-19; Postal Regulatory Commission, *Annual Report to the President and Congress*, Fiscal Year 2020, January 26, 2021, at 44 (*FY 2020 Annual Report*).

19 *See* Order No. 6043 at 1-2.

20 *Id.* at 2-3.

21 *Id.* at 10.

22 Pub. L. No. 117-108, 136 Stat. 1127 (2022).

23 This section directed the Federal Trade Commission (FTC) to prepare a report identifying federal and state laws that apply differently to the Postal Service’s competitive products than to similar products offered by private competitors. PAEA § 703(a). In the report, the FTC was required to include any recommendations concerning how to end any legal differences that it deemed appropriate and, in the interim, to account for the net economic effects resulting from these differences. *Id.* § 703(b). Section 703 directed the Commission, when revising regulations under 39 U.S.C. 3633, to consider the FTC’s recommendations as well as subsequent events that affect the continuing validity of the FTC’s net economic effect finding. *Id.* § 703(d).

24 Docket Nos. RM2017-1 and RM2022-2, Notice and Order Providing an Opportunity to Comment on the Commission’s Section 703(d) Analysis, September 7, 2022 (Order No. 6269).

25 Docket Nos. RM2017-1 and RM2022-2, Order Finalizing Rule Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 9, 2023 (Order No. 6399).

26 Docket No. RM2022-7, Advance Notice of Proposed Rulemaking to Revise Periodic Reporting of Service Performance, April 26, 2022 (Order No. 6160).

27 39 U.S.C. § 3692(b)(2); *see* 39 U.S.C. § 3692(b), (c).

28 *See* 39 U.S.C. §§ 3703-3705.

29 Order No. 6160 at 4.

30 Docket No. RM2022-7, Notice of Proposed Rulemaking to Revise Periodic Reporting of Service Performance, September 21, 2022 (Order No. 6275).

31 Order No. 6275 at 5-6.

32 *Id.* at 7-8. “Point impact data” means “the number of percentage points by which on-time performance decreased due to a specific root cause of failure.” *Id.* at 6.

33 *Id.* at 10.

34 *Id.* at 12-13.

35 *Id.* at 15-16.

36 *Id.* at 20.

37 *Id.*

38 *Id.* at 21.

39 *Id.*

40 *Id.* at 22-23.

41 Docket No. RM2020-5, Order Adopting Final Rules Regarding Rate Incentives for Market Dominant Products, May 15, 2020 (Order No. 5510).

42 Order No. 5433 at 2.

43 39 C.F.R. §§ 3030.101(j), 3030.128(f)(2)(iii). The other requirements are that the rate incentive is in the form of a discount or can be easily translated into a discount and that sufficient billing determinants are available for the rate incentive to be included in the percentage change in rate calculation. 39 C.F.R. § 3030.128(f)(2); Docket No. RM2020-5, Notice of Intent to Reconsider, August 26, 2020, at 2 (Order No. 5655).

44 Petition for Review, *U.S. Postal Serv. v. Postal Regul. Comm’n*, No. 20-1208 (D.C. Cir. filed June 15, 2020).

45 *See id.* This proceeding was described in detail in the *FY 2020 Annual Report*. *FY 2020 Annual Report* at 23-24.

46 Docket No. RM2020-5, Notice of Proposed Rulemaking to Amend Rules Regarding Rate Incentives for Market Dominant Products, November 14, 2022 (Order No. 6325).

47 Order No. 6325 at 1; *see id.* at 26.

48 *Id.* at 1.
49 *Id.* at 1-2.
50 *Id.* at 2, 26. These rules are located at 39 C.F.R. §§ 3030.123(j) and 3030.128(f)(2)(iv).
51 Docket No. RM2020-4, Advance Notice of Proposed Rulemaking to Consider Regulations to Carry Out the Statutory Requirements of 39 U.S.C. 601, February 7, 2020 (Order No. 5422).
52 See Private Express Statutes, 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.
53 See Order No. 5422 at 2.
54 39 U.S.C. § 601(c).
55 Docket No. RM2020-4, Notice of Proposed Rulemaking for Regulations Pertaining to Section 601, November 24, 2021 (Order No. 6047). Docket No. PI2021-2 is discussed below in the “Public Inquiries – Letter Monopoly Exemptions” section.
56 Order No. 6047 at 17.
57 *Id.*
58 *Id.*
59 Docket No. RM2020-4, Order Adopting Final Rules Regarding Section 601, July 8, 2022, at 11 (Order No. 6221).
60 *Id.*
61 *Id.* at 13-14.
62 87 Fed. Reg. 42,074 (July 14, 2022).
63 Docket No. RM2022-4, Notice of Proposed Rulemaking to Amend Rules Regarding Notices, Motions, and Information Requests, April 5, 2022 (Order No. 6141).
64 Order No. 6141 at 2.
65 *Id.*
66 Docket No. RM2022-4, Order Adopting Final Rules Regarding Notices, Motions, and Information Requests, July 12, 2022 (Order No. 6222).
67 Docket No. RM2021-2, Advance Notice of Proposed Rulemaking Regarding Performance Incentive Mechanism, January 15, 2021, at 1 (Order No. 5816).
68 Postal Regulatory Commission, *Annual Report to the President and Congress*, Fiscal Year 2020, January 26, 2021, at 44 (*FY 2020 Annual Report*).
69 Docket No. RM2022-5, Petition for Rulemaking of the Association for Postal Commerce and Alliance of Nonprofit Mailers, April 11, 2022; Docket No. RM2022-6, Petition for Post-Legislation Review of the System for Regulating Market-Dominant Rates and Classes, April 11, 2022.
70 39 C.F.R. § 3010.101(q).
71 39 C.F.R. § 3010.101(f).
72 *Id.*
73 *Id.*
74 For Market Dominant products, the Postal Service may set rates not of general applicability by entering into NSAs with mailers or groups of mailers. See 39 U.S.C. § 3622(c)(10); 39 C.F.R. pt. 3040, subpt. G. No Market Dominant NSAs were filed in FY 2022.
75 Docket No. R2022-1, United States Postal Service Notice of Market-Dominant Price Change, April 6, 2022.
76 Docket No. R2022-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 27, 2022, at 2 (Order No. 6188).
77 Order No. 6188 at 2. The Commission also found that the proposed rate adjustments did not implicate the pricing requirements appearing in 39 U.S.C. §§ 3627 and 3629. *Id.*
78 *Id.* at 6, 105-06.
79 Docket No. RM2022-12, United States Postal Service Application for a Waiver Under 39 CFR § 3030.286, August 8, 2022 (Docket No. RM2022-12, Application). The Postal Service filed a notice proposing rate adjustments and related MCS changes for Market Dominant products on October 7, 2022. Docket No. R2023-1, United States Postal Service Notice of Market-Dominant Price Change, October 7, 2022.
80 Docket No. RM2022-12, Application at 3, 6-7.
81 *Id.* at 7.
82 Docket No. RM2022-12, Order Approving Postal Service Application for Waiver Under 39 C.F.R. § 3030.286, August 30, 2022, at 1, 8 (Order No. 6261).
83 Order No. 6261 at 9.
84 *Id.* at 11.
85 *Id.*
86 Postal Regulatory Commission, *Report on Rate Increases for Market Dominant Products*, Report to the House Committee on Appropriations, December 9, 2022 (Report on Market Dominant Rate Increases).
87 H.R. Rep. No. 117-79, at 100 (2021).
88 *Id.*
89 Report on Market Dominant Rate Increases at 5.
90 *Id.* at 51.
91 *Id.*
92 39 U.S.C. § 3632(b)(2); 39 C.F.R. §§ 3035.102-.104. The Postal Service must also publish its decision to change rates or classes of general applicability in the *Federal Register* at least 30 days before the new rates or classes become effective. *Id.*
93 39 U.S.C. § 3632(b)(3); 39 C.F.R. § 3035.105(a).
94 39 C.F.R. §§ 3035.102-.105. For proposed decreases in rates of general applicability and changes to rates or classes not of general applicability, the notice must also include (1) sufficient revenue and cost data for the 12-month period following the effective date of the change demonstrating that each affective Competitive product will cover its attributable costs and (2) a Postal Service certified statement attesting to the accuracy of the data submitted and explaining why, following the change, Competitive products in total will not be subsidized by Market Dominant products and will cover an appropriate share of the Postal Service’s institutional costs. 39 C.F.R. §§ 3035.103(c), 3035.105(c).
95 39 U.S.C. § 3633(a)(1).
96 39 U.S.C. §§ 3633(a)(2), 3631(b).
97 39 U.S.C. § 3633(a)(3). The Commission recently concluded its third 5-year review of the appropriate share requirement under 39 U.S.C. § 3633(b). See “Rulemakings Amending Commission Regulations” section above.
98 Docket No. CP2022-22, USPS Notice of Changes in Rates of General Applicability for Competitive Products, November 10, 2021; Docket No. CP2022-62,

USPS Notice of Changes in Rates and Classifications of General Applicability for Competitive Products, May 6, 2022.

99 Docket No. CP2022-22, Order Approving Changes in Rates of General Applicability for Domestic Competitive Products, December 21, 2021, at 7-8 (Order No. 6071); Docket No. CP2022-22, Notice of Erratum, December 22, 2021; Docket No. CP2022-62, Order Approving Changes in Rates and Classifications of General Applicability for Competitive Products, June 8, 2022, at 5-6 (Order No. 6195).

100 Order No. 6071 at 10; Order No. 6195 at 7.

101 Order No. 6071 at 10.

102 *Id.* at 8-10; Order No. 6195 at 6-8.

103 See Docket Nos. CP2022-22 and CP2022-62, Order Granting in Part the United States Postal Service's Motions for Clarification of Order Nos. 6071 and 6195, August 15, 2022, at 5 (Order No. 6249).

104 Docket No. CP2022-22, USPS Motion for Clarification of Commission Order No. 6071, January 19, 2022 (Docket No. CP2022-22, Motion).

105 Docket No. CP2022-22, Motion at 1.

106 See *id.* at 2-5.

107 Docket Nos. CP2022-22 and CP2022-62, USPS Motion for Clarification of Order No. 6195 and Renewed Motion for Clarification of Order No. 6071, June 10, 2022.

108 See Order No. 6249.

109 *Id.* at 6, 14.

110 *Id.* at 9-12.

111 *Id.* at 12.

112 *Id.* at 15.

113 *Id.* at 13-14.

114 *Id.* at 14.

115 Docket No. CP2022-99, USPS Notice of Time-Limited Changes in Rates of General Applicability for Competitive Products, August 10, 2022, at 1 (Docket No. CP2022-99, Notice).

116 Docket No. CP2022-99, Notice at 1.

117 Docket No. CP2022-99, Order Approving Price Adjustments for Domestic Competitive Products, September 6, 2022, at 6-7 (Order No. 6267).

118 Universal Postal Convention, Article 29.1 (Abidjan 2021), available at <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/03-actsConventionAndFinalProtocol/conventionAndFinalProtocolAdoptedAtAbidjanEn.pdf>. Destination postal operators may set higher self-declared rates for the handling and delivery of inbound small packets and bulky letters in lieu of the default rates also established in the UPU Convention.

119 Docket No. CP2022-58, Notice of the United States Postal Service of Rates Not of General Applicability for Inbound E-Format Letter Post, and Application for Non-Public Treatment, April 29, 2022 (Docket No. CP2022-58, Notice).

120 Docket No. CP2022-58, Notice at 4-5.

121 Docket No. CP2022-58, Order Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, May 26, 2022, at 4 (Order No. 6187).

122 Docket No. CP2022-58, Notice of a Preliminary Determination to Unseal Self-Declared Rates for Inbound Letter Post Small Packets and Bulky Letters, August 29, 2022 (Order No. 6260).

123 Docket No. CP2022-58, Response of the United States Postal Service to Notice of Preliminary Determination, September 6, 2022.

124 Universal Postal Convention, Articles 17.7 and 17.8 (Abidjan 2021), available at <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/03-actsConventionAndFinalProtocol/conventionAndFinalProtocolAdoptedAtAbidjanEn.pdf>.

125 Regulations to the Universal Postal Convention and Final Protocol, Article 33-201 (Berne 2021) available at <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/05-actsRegulationsConventionAndPostalPayment/actsRegulationsToTheConventionAndFinalProtocol.pdf>.

126 *Id.* Article 33-202.

127 Docket No. CP2022-35, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), and Application for Non-Public Treatment, December 10, 2021; Docket No. CP2022-66, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), and Application for Non-Public Treatment, May 23, 2022.

128 *Id.*

129 Docket No. CP2022-35, Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), December 21, 2021, at 6 (Order No. 6072); Docket No. CP2022-66, Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), June 7, 2022, at 6 (Order No. 6191).

130 39 U.S.C. § 3634; 39 C.F.R. §§ 3060.40, *et seq.*

131 Docket No. T2022-1, Notice of the United States Postal Service of Submission of the Calculation of the FY 2021 Assumed Federal Income Tax on Competitive Products, January 12, 2022.

132 Docket No. T2022-1, Order Approving the Calculation of the FY 2021 Assumed Federal Income Tax on Competitive Products, April 11, 2022, at 5 (Order No. 6148).

133 39 U.S.C. § 3652(a)(1).

134 39 U.S.C. § 3652(a)(2), (b), (c).

135 39 U.S.C. § 3652(a).

136 These reports are on the Commission's website, available at <https://www.prc.gov/prc-reports>.

137 39 U.S.C. § 3653(a), (b).

138 FY 2021 ACD at 105.

139 *Id.* at 4.

140 *Id.*

141 *Id.*

142 *Id.*

143 *Id.* at 127-28.

144 Docket No. ACR2021, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2021, May 18, 2022 (FY 2021 Financial Analysis).

145 FY 2021 Financial Analysis at 2.

146 *Id.*

147 *Id.* at 4-5.

148 39 U.S.C. § 3653(d).
149 *Id.*
150 Docket No. ACR2021, *Analysis of the Postal Service's FY 2021 Annual Performance Report and FY 2022 Performance Plan*, June 30, 2022 (FY 2021 Analysis).
151 FY 2021 Analysis at 10-23.
152 *Id.* at 4. The Postal Service met the Financial Health performance goal and partially met the High-Quality Service, Excellent Customer Experience, and Safe Workplace and Engaged Workforce goals. The Commission considers the Postal Service to have partially met a performance goal if the Postal Service meets or exceeds some but not all targets for each performance indicator measuring progress toward that goal. *Id.*
153 *Id.* at 24-119.
154 39 U.S.C. § 3661(b).
155 Docket No. N2022-1, Advisory Opinion on the Service Standard Changes Associated with USPS Retail Ground and Parcel Select Ground, June 9, 2022, at 8 (Docket No. N2022-1, Advisory Opinion).
156 39 C.F.R. § 3020.112.
157 39 U.S.C. § 3661(c).
158 See Docket No. N2022-2, Advisory Opinion on Changes to the Critical Entry Times for Certain Categories of Periodicals, November 30, 2022, at 8 (Docket No. N2022-2, Advisory Opinion).
159 39 U.S.C. § 3661(c).
160 See Docket No. N2022-1, Advisory Opinion.
161 *Id.* at 9.
162 Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021.
163 Docket No. N2022-1, Advisory Opinion at 9.
164 *Id.* at 2.
165 *Id.* at 31.
166 *Id.*
167 *Id.* at 31-32.
168 Docket No. N2022-2, Advisory Opinion.
169 Docket No. N2022-2, Advisory Opinion at 1-2.
170 *Id.*
171 *Id.* at 2.
172 *Id.* at 21.
173 39 U.S.C. § 3642(a). The Commission may also initiate a proceeding to change the product lists. *Id.* Product list updates are issued in Docket No. RM2020-8 and published in the *Federal Register*.
174 39 C.F.R. pt. 3040, subpts. B, C, D.
175 39 U.S.C. § 3642(b)(1).
176 39 U.S.C. § 3642(b)(2).
177 39 U.S.C. § 3642(b)(3).
178 See 39 C.F.R. § 3040.132(c).
179 Docket No. MC2022-95, Order Removing Parcel Return Service as a Rate of General Applicability, October 24, 2022 (Order No. 6310); Docket Nos. MC2022-81 and MC2022-82, Order Removing USPS Retail Ground from the Competitive Product List and Approving Competitive Classification Changes to First-Class Package Service and Parcel Select, October 28, 2022, at 13, 19 (Order No. 6318).
180 Docket No. MC2022-46, Order Approving Request to Transfer Additional Post Office Box Service Locations to the Competitive Product List, July 21, 2022 (Order No. 6234); Docket Nos. MC2022-37 and CP2022-44, Order Adding Inbound International Tracked Delivery Service to the Competitive Product List as a Category Within International Ancillary Services, January 20, 2022 (Order No. 6094).
181 A BPM Parcels mailpiece may weigh up to 15 pounds and contain printed matter consisting of advertising, promotional, directory, or editorial material. Docket No. MC2021-78, United States Postal Service Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, March 26, 2021, at 3-4 (Docket No. MC2021-78, Request). BPM is primarily used by business customers (or organizations) and is transported by ground shipping and delivery. *Id.* at 4.
182 See Docket No. MC2021-78, Request.
183 *Id.* at 1.
184 *Id.* at 2-14.
185 *Id.* at 6.
186 See *id.* at 6-7.
187 *Id.* at 10-12.
188 *Id.* at 16.
189 *Id.* at 14-16.
190 *Id.* at 17.
191 Docket No. MC2021-78, Order Denying Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, February 10, 2022 (Order No. 6105).
192 See 39 U.S.C. § 3642(b)(1); Order No. 6105 at 34.
193 Order No. 6105 at 36, 39-46.
194 *Id.* at 2; see *id.* at 53.
195 *Id.* at 2, 52.
196 39 C.F.R. § 3040.211; see 39 U.S.C. § 3682.
197 39 C.F.R. pt. 3040, subpt. E. The Postal Service may propose material changes or minor corrections to the MCS depending on “the degree to which the proposed alteration affects the characteristics of the product.” Docket No. RM2015-6, Notice of Proposed Rulemaking on Changes and Corrections to the Mail Classification Schedule, November 14, 2014, at 9, 14 (Order No. 2250).
198 Docket No. MC2022-57, Order Approving Minor Corrections to the Mail Classification Schedule, June 22, 2022 (Order No. 6205); Docket No. MC2022-51, Order Approving Modification of the Product Description of Ancillary Services on the Market Dominant Product List, May 11, 2022 (Order No. 6171). In Docket No. MC2022-51, the Commission approved the removal of Special Handling as a service offered under the Ancillary Services product. Order No. 6171 at 2.

199 Docket No. MC2022-60, Notice and Order Concerning Potential Modification of Special Services on the Competitive Product List, May 16, 2022, at 1-2, 2 n.4 (Order No. 6174).

200 Order No. 6174 at 3.

201 *Id.* at 4-5.

202 *Id.* at 6.

203 39 U.S.C. § 3641(a)(2).

204 39 U.S.C. § 3641(c)(1); 39 C.F.R. §§ 3045.2, 3045.3.

205 39 U.S.C. § 3641(b).

206 39 U.S.C. § 3641(d); 39 C.F.R. §§ 3045.10-.11

207 39 U.S.C. § 3641(e)(1), (g); 39 C.F.R. § 3045.15(b), (c).

208 39 C.F.R. § 3045.20(a).

209 Docket No. MT2022-1, Order Authorizing Market Test of Experimental Product – USPS Connect Local Mail, January 4, 2022 (Order No. 6080).

210 Order No. 6080 at 2.

211 Docket No. MT2020-2, Order Authorizing Extended Mail Forwarding Market Test, July 20, 2020, at 1 (Order No. 5591).

212 Docket No. MT2019-1, Order Authorizing Plus One Market Test, September 20, 2019 (Order No. 5239).

213 Docket No. MT2020-1, Order Authorizing Commercial PO Box Redirect Service, June 3, 2020 (Order No. 5528). The market test terminated on June 8, 2022.

214 39 C.F.R. § 3045.18.

215 See Docket No. MC2023-12 Request; Docket No. MC2022-40, Request; Docket No. MC2022-20, Request.

216 Docket No. MC2022-40, Order Approving Addition of Extended Mail Forwarding to the Mail Classification Schedule, April 8, 2022 (Order No. 6147); Docket No. MC2022-20, Order Approving Addition of Plus One to the Mail Classification Schedule, January 4, 2022 (Order No. 6081).

217 Docket No. MC2023-12, Order Dismissing Without Prejudice Postal Service’s Request to Convert USPS Connect Local Mail Market Test to a Permanent Offering, October 17, 2022, at 5-6 (Order No. 6301).

218 Order No. 6301 at 2; Docket No. MC2023-12, United States Postal Service Revised Request to Convert USPS Connect Local Mail to a Permanent Offering, November 9, 2022.

219 Docket No. PI2015-1, Order Approving Use of Internal Measurement Systems, July 5, 2018 (Order No. 4697); see Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771).

220 Docket No. PI2022-3, United States Postal Service Notice of Filing Changes to Service Performance Measurement Plan Document, April 22, 2022, at 1 (Docket No. PI2022-3, Notice).

221 See 39 C.F.R. § 3055.5.

222 See Docket No. PI2022-3, Notice at 1.

223 Docket No. PI2022-3, Order Directing the Postal Service to Request an Advisory Opinion Prior to Implementing its Proposed Change to the Critical Entry Times for Periodicals and Approving the Other Proposed Revisions to Market Dominant Service Performance Measurement Plan, July 18, 2022, at 26-27 (Order No. 6232).

224 Order No. 6232 at 8, 26.

225 *Id.* at 8.

226 *Id.* at 8-9, 14, 24.

227 *Id.* at 26-27.

228 Docket No. PI2020-1, Notice and Order Providing an Opportunity to Comment, October 1, 2019, at 1 (Order No. 5260).

229 See “Chapter IV - Value of the Postal Monopoly” below; *FY 2020 Annual Report* at 53-55.

230 Order No. 5260 at 2-3. The letter monopoly is codified in the Private Express Statutes. See 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.

231 18 U.S.C. § 1725.

232 See Order No. 5260.

233 *Id.* at 1; see “Chapter IV - Value of the Postal Monopoly” below; *FY 2020 Annual Report* at 53-55.

234 Order No. 5260 at 1-2.

235 Docket No. PI2020-1, Notice of Filing Library Reference PRC-LR-PI2020-1-NP1 and Order Setting Comment Deadline, February 10, 2021 (Order No. 5832); see Docket No. PI2020-1, Notice of Errata, March 1, 2021.

236 Order No. 5832 at 1.

237 *Id.* at 7.

238 Docket No. PI2021-1, Notice and Order Providing an Opportunity to Comment with Respect to Universal Service Obligation Valuation Methodology, December 10, 2020 (Order No. 5777).

239 See Postal Regulatory Commission, *Report on Universal Postal Service and Postal Monopoly*, December 19, 2008 (USO Report).

240 39 U.S.C. § 101(a); see USO Report at 18.

241 Order No. 5777 at 2; see “Chapter IV – Universal Service Obligation and Postal Monopoly” section below; 39 U.S.C. § 3651(b)(1).

242 Order No. 5777 at 3.

243 *Id.*

244 *Id.* at 1, 3, 8-9.

245 *Id.* at 3-8.

246 Docket No. PI2021-1, Motion of the United States Postal Service to Disclose Methodological Information and to Adjust Procedural Schedule, January 12, 2021, at 1-2. The Public Representative filed a response supporting the Postal Service’s motion. Docket No. PI2021-1, Public Representative Response to Motion to Disclose Methodological Information and Adjust Procedural Schedule, January 14, 2021.

247 Docket No. PI2021-1, Order Granting Motion to Disclose Methodological Information and to Adjust Procedural Schedule, January 21, 2021, at 2 (Order No. 5821).

248 See Order No. 5422. This rulemaking was discussed in the “Rulemakings Amending Commission Regulations” section above.

249 Docket No. PI2021-2, Notice and Order Providing an Opportunity to Comment on Regulations Pertaining to 39 U.S.C. § 601, July 2, 2021, at 1 (Order No. 5930). The letter monopoly and 39 U.S.C. § 601 are described in the “Rulemakings Amending Commission Regulations” section above and in Chapter IV, below.

250 Order No. 5930 at 6. Section 601(a) provides for the private carriage of letters when, among other things, the letter is in an envelope that is properly

addressed, the proper amount of postage is affixed to the envelope, and the postage is canceled in ink by the sender. 39 U.S.C. § 601(a). Section 601(b)(1) and (b) (2) further provide that a letter must meet price and weight requirements in order to be carried out of the mail. 39 U.S.C. § 601(b)(1), (b)(2).

251 Order No. 5930 at 6.

252 *Id.*

253 *Id.*

254 *Id.* at 6-7.

255 *Id.* at 7; see 39 U.S.C. § 601(b)(3).

256 Order No. 5930 at 7.

257 Docket No. PI2021-2, Order Closing Docket, November 24, 2021 (Order No. 6046).

258 Order No. 6046 at 2.

259 *Id.*

260 Docket No. PI2022-1, Notice and Order Providing an Opportunity to Comment on the Postal Service's Process for Resolving Suspended Post Offices, February 3, 2022 (Order No. 6101).

261 Order No. 6101 at 1-2.

262 *Id.* at 2.

263 *Id.* at 3.

264 *Id.* The Postal Service resolves a suspended Post Office by either discontinuing or reopening the Post Office. *Id.* at 2.

265 *Id.* at 3.

266 Docket No. PI2022-2, Notice and Order Providing an Opportunity to Comment on the Service Performance Dashboard, February 10, 2022, at 1 (Order No. 6104).

267 *See id.*

268 Order No. 6104 at 3.

269 Docket No. PI2022-2, Order Closing Proceeding, April 13, 2022, at 3 (Order No. 6151).

270 39 U.S.C. 3692(c); see "Revisions to Service Performance Reporting Requirements" section above.

271 39 C.F.R. § 3050.1(c).

272 39 C.F.R. §§ 3050.1(a), 3050.10.

273 39 U.S.C. § 3652(e)(2); 39 C.F.R. § 3050.11(a). The Commission, acting on its own behalf, may also initiate a proceeding to change an accepted analytical principle. 39 C.F.R. § 3050.11(a).

274 *Id.*

275 Docket No. RM2020-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020, at 1 (Docket No. RM2020-13, Petition). The Petition was accompanied by a study supporting Proposal Six. See Docket No. RM2020-13, A. Thomas Bozzo & Tim Huegerich, Christensen Associates, *Analysis of Labor Variability for Automated Letter and Flat Sorting*, September 15, 2020 (Variability Report).

276 These cost pools are the Delivery Barcode Sorter (DBCS), Automated Flats Sorting Machine (AFSM) 100, and Flats Sequencing System (FSS). Docket No. RM2020-13, Petition, Proposal Six at 1. The DBCS processes letter- and card-shaped mail, while the AFSM 100 and FSS primarily process flat-shaped mail. *Id.* at 1 n.1.

277 *Id.* at 1-2.

278 *Id.* at 2.

279 *Id.* at 1.

280 See Variability Report at 4.

281 Docket No. RM2020-13, Petition, Proposal Six at 2.

282 *Id.* at 3.

283 *Id.* at 4.

284 Docket No. RM2020-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), January 26, 2022 (Order No. 6096).

285 Order No. 6096 at 11.

286 *Id.*

287 *Id.*

288 *Id.*

289 *Id.*

290 *Id.*

291 *Id.* at 11-12.

292 *Id.* at 12.

293 *Id.*

294 Docket No. RM2020-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Ten), July 8, 2021 (Order No. 5932).

295 Docket No. RM2022-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), September 23, 2022, at 3 (Order No. 6280).

296 Order No. 6280 at 6.

297 *Id.*

298 Docket No. RM2022-8, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 7, 2022 (Docket No. RM2022-8, Petition).

299 The Postal Service proposed to adopt the Minimization of Error Distance Between Predicted and Actual Cost method because it is closer in form to established methods of variability calculation, can be calculated directly from the logit models, uses the actual distribution of Work Service Credits across Post Offices, and is consistent with theory underlying attributable cost calculation. Docket No. RM2022-8, Petition, Proposal Two at 11.

300 Order No. 6280 at 13.

301 *Id.*

302 *Id.* at 18.

303 Docket No. RM2022-11, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), July 29, 2022.

304 CDS is a contractual agreement between the U.S. Postal Service and an individual or firm for the delivery and collection of mail to and from homes and business.

305 Docket No. RM2022-11, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), October 20, 2022, at 4 (Order No. 6307).

306 *Id.* These general ledger accounts are Account No. 53605 – Intra-CSD Regular (Intra-District) and Account No. 53601 – Intra-P&DC Regular (Intra-P&DC). *Id.*

307 *Id.*

308 *Id.*

309 *Id.* at 5.

310 *Id.*

311 *Id.*

312 *Id.*

313 *Id.* at 7.

314 *Id.*

315 Docket No. RM2022-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), August 26, 2022, at 1 (Docket No. RM2022-13, Petition).

316 Docket No. RM2022-13, Petition, Proposal Six at 1.

317 *Id.* at 3.

318 *Id.*

319 Docket No. RM2022-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), November 3, 2022, at 8 (Order No. 6322).

320 Order No. 6322 at 9.

321 *Id.*

322 *Id.* at 11, 11 n.17.

323 *Id.* at 11.

324 *Id.* at 11-12.

325 Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021 (Order No. 5999). Proposal Seven was discussed in the *FY 2021 Annual Report. FY 2021 Annual Report* at 43.

326 Docket No. RM2021-4, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), February 22, 2022 (Order No. 6109).

327 Docket No. RM2021-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), November 4, 2021 (Order No. 6032).

328 Docket No. RM2021-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), November 5, 2021 (Order No. 6033).

329 Docket No. RM2021-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), December 1, 2021 (Order No. 6050).

330 Docket No. RM2022-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), September 12, 2022, at 2 (Order No. 6272).

331 Docket No. RM2022-10, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 23, 2022 (Order No. 6279).

332 Docket No. RM2020-9, Order Rejecting United Parcel Service, Inc.’s Proposed Changes to Postal Service Costing Methodologies (UPS Proposal One), November 29, 2021 (Order No. 6048); *see* Docket No. RM2020-9, Order Denying United Parcel Service, Inc.’s Motion for Reconsideration of Order No. 6048, January 28, 2022 (Order No. 6097).

333 *FY 2021 Annual Report* at 41-42.

334 Docket No. RM2022-3, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Changes in Analytical Principles (Proposal One), January 5, 2022, at 2 (Docket No. RM2022-3, Petition).

335 Docket No. RM2022-3, Petition, Proposal One at 2.

336 *Id.* at 6.

337 *Id.*

338 *Id.*

339 *Id.*

340 *Id.*

341 *Id.* at 7.

342 Docket No. RM2021-3, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), March 11, 2021.

343 *See* Order No. 6004.

344 *Id.* at 1; *see* 39 U.S.C. § 3652(e)(2).

345 Order No. 6004 at 9.

346 *See* Order No. 6048 at 2

347 Order No. 6004 at 9.

348 *Id.* at 9-10.

349 *Id.* at 10.

350 39 U.S.C. § 3662(a).

351 39 U.S.C. § 3662(b); 39 C.F.R. § 3022.30(a).

352 *See* United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (10-Year Strategic Plan).

353 Docket No. C2022-1, Complaint Regarding United States Postal Service Violation of 39 U.S.C. § 3661(b), October 7, 2021 (Docket No. C2022-1, Complaint). On October 22, 2021, the States filed a motion to amend the complaint to add the state of Vermont as a complainant, which the Commission granted. Docket No. C2022-1, Motion of the States to Amend the Complaint to Add State of Vermont as a Complainant, October 22, 2021; Docket No. C2022-1, Order Granting Motion to Extend Response Deadline, October 29, 2021, at 2 n.2 (Order No. 6025).

354 39 U.S.C. § 3661(b). The Commission’s rules require the Postal Service to file its request “not less than 90 days before the proposed effective date of the change in the nature of postal services involved.” 39 C.F.R. § 3020.112; *see* “Nature of Service Cases” section above.

355 Docket No. C2022-1 Complaint at 26-32.

356 *Id.* at 33-36.

357 *Id.* at 36 ¶ 124.

358 Docket No. C2022-1, United States Postal Service’s Motion to Dismiss, October 27, 2021, at 1 (Docket No. C2022-1, Motion to Dismiss).

359 Docket No. C2022-1, Motion to Dismiss at 1.
360 *Id.* at 1-2.
361 *Id.* at 5-18.
362 Docket No. C2022-1, Complainants’ Opposition to the United States Postal Service’s Motion to Dismiss, November 10, 2021 (Docket No. C2022-1, Opposition).
363 Docket No. C2022-1, Opposition at 6.
364 *Id.* at 1, 21-28.
365 Docket No. C2022-1, Order Granting Motion to Dismiss Complaint, December 17, 2021 (Order No. 6067).
366 Order No. 6067 at 16.
367 *Id.* at 17, 21.
368 *Id.* at 24.
369 *Id.* at 23.
370 *Id.* at 24-29.
371 *Id.* at 30.
372 PSRA § 206(a)(1). Flats are Market Dominant mail products that meet the physical standards described in the Domestic Mail Manual for flat-shaped mail for any mail class. *Id.* § 206(a)(4).
373 *Id.* § 206(a)(1).
374 *Id.* § 206(a)(2).
375 *Id.* § 206(a)(3). The report on the flats study is due within 1 year of the PSRA’s enactment.
376 Docket No. SS2022-1, Notice Initiating Proceeding for Flats Operations Study, July 14, 2022.
377 39 U.S.C. § 3663.
378 Petition for Review, *United Parcel Serv., Inc. v. Postal Regul. Comm’n*, No. 22-1029 (D.C. Cir. filed Feb. 25, 2022).
379 Order, *United Parcel Serv., Inc. v. Postal Regul. Comm’n*, No. 22-1029 (D.C. Cir. filed Oct. 13, 2022).
380 Petition for Review, *U.S. Postal Serv. v. Postal Regul. Comm’n*, No. 22-1068 (D.C. Cir. filed April 28, 2022); see FY 2021 ACD at 40.
381 Docket No. ACR2021, United States Postal Service Motion for Reconsideration of Directive Regarding Bound Printed Matter Parcels, April 28, 2022.
382 Order No. 6209.
383 Order, *U.S. Postal Serv. v. Postal Regul. Comm’n*, No. 22-1068 (D.C. Cir. filed July 5, 2022).
384 39 U.S.C. § 407(b)(1).
385 39 U.S.C. § 407(c)(1).
386 39 U.S.C. § 407(c)(2).
387 Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, at 18 (USO Report).
388 USO Report at 10 n.1; see Chapter IV - Value of the Postal Monopoly section below.
389 In Docket No. PI2020-1, the Commission is evaluating comments and suggestions for modifications and enhancements to the current estimation methodology to account specifically for recent Postal Service data changes and for any other aspects of the letter and mailbox monopolies (postal monopoly) estimation methodology. See Order No. 5260. This proceeding in the Value of the Postal Monopoly section and in Chapter III in the Public Inquiries – Value of Postal and Mailbox Monopolies section above.
390 39 U.S.C. § 3651(b)(1).
391 At the time the *FY 2022 Annual Report* was prepared, the most currently available complete data were from FY 2021.
392 See 39 U.S.C. § 3651(b)(2).
393 See Order No. 5777. This docket, which is currently pending before the Commission, is described in Chapter III in the Public Inquiries – Universal Service Obligation Valuation Methodology section above.
394 39 U.S.C. § 3651(b)(1)(A). 39 U.S.C. § 101(b) requires the Postal Service to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.” 39 U.S.C. § 101(b).
395 39 U.S.C. § 403(b)(3).
396 Docket No. RM2015-19, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Ten), November 24, 2015, at 1 n.2 (Order No. 2837).
397 See USO Report, Appendix F, section 3 (Robert H. Cohen and Charles McBride, *Estimates of the Current Costs of the USO in the U.S.*, at 26).
398 The Rural Mail Count classifies all remunerable activities of rural carriers as either Post Office or street activities. However, some Post Office activities can occur on the street. For example, parcel acceptance on the street is considered a Post Office activity because it can substitute for a customer sending a parcel at a Post Office window.
399 See Postal Regulatory Commission, *Annual Report to the President and Congress*, Fiscal Year 2016, January 12, 2017, at 42.
400 Piggyback costs augment labor cost estimates by adding the costs associated with supervisors and administration, service-wide benefits along with facility-related and equipment-related costs. See Docket No. ACR2021, Library Reference USPS-FY21-24, December 29, 2021, PDF file “USPS-FY21-24.Preface.pdf, at 1; Docket No. PI2021-1, Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 1, September 24, 2021, question 3. (Docket No. PI2021-1, Response to CHIR No. 1); Docket No. PI2021-1, Responses of the United States Postal Service to Questions 1-2 of Chairman’s Information Request No. 3, June 16, 2022, question 2 (Docket No. PI2021-1, Response to CHIR No. 3).
401 The Postal Service states that “[t]he ratio of retail transactions per retail revenue dollar declined 68 percent from 0.552 to 0.176 between FY 2007 and FY 2020.” See Docket No. PI2021-1, Response to CHIR No. 1, question 2.b.iii.; Docket No. PI2021-1, Response to CHIR No. 3, question 1.
402 USO Report at 139.
403 United States Postal Service, *2019 Annual Report on Form 10-K*, November 14, 2019, at 17; Docket No. ACR2019, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2019, May 7, 2020, at 80.
404 The former Postal Rate Commission found it equitable to offer one PO Box at no charge to any customer whom the Postal Service determined ineligible for carrier delivery. Docket No. MC96-3, Opinion and Recommended Decision, April 2, 1997, at 62.
405 See USO Report at 196.
406 Docket No. RM2011-9, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal One), April 6, 2011, at 1.
407 Docket No. RM2011-9, Order Concerning Analytical Principles Used in Periodic Reporting (Proposal One), June 9, 2011, at 4 (Order No. 744).
408 See Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 17, 2020 (Order No. 5637), Appendix B, at 4; Docket No. RM2020-1, Responses of the United States Postal Service to Questions 1-16 of Chairman’s Information Request No. 3, June 10, 2020, questions 7.c.-

7.d., 9.b.; Docket No. ACR2020, Library Reference USPS-FY20-8, December 29, 2020, PDF file “USPS-FY20-8.Preface.pdf,” at 1.

409 39 U.S.C. § 3651(b)(1)(B). The Postal Service provides free postage for blind and disabled persons and for overseas voting. 39 U.S.C. §§ 3403-3406. The Postal Service receives appropriated funds reimbursing it for providing free postage. 39 U.S.C. § 2401(c). For this reason, the cost of providing free postage is not included in the USO Cost.

410 FY 2018 ACD at 39.

411 In this Annual Report, attributable cost means incremental cost. See Order No. 3506 at 125. 39 U.S.C. § 3622(c)(2) defines attributable cost as the “direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]” In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs, developed as part of the estimation of incremental costs. Before that order, attributable cost only included the sum of volume-variable costs, which rise as volume increases and fall as volume decreases, and product-specific fixed costs, which are costs caused by a specific product but do not vary with volume. See Docket No. ACR2016, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2016, March 31, 2017, at 37.

412 Periodicals is a preferred class of mail and receives several statutory discounts, such as a 5 percent discount for nonprofit and classroom publications. These losses were initially called “Losses on Market Dominant Products” in past Annual Reports. The Commission later clarified that the USO Cost only includes Periodicals Losses. Postal Regulatory Commission, *Annual Report to the President and Congress*, Fiscal Year 2012, January 3, 2013, at 37 n.3. Losses on other unprofitable Market Dominant products are not included, because those products are in classes that were profitable overall; therefore, the Postal Service had the pricing flexibility to remedy those losses. USO Report at 134. In FY 2021, the losses from Media Mail/Library Mail and BPM Parcels exceeded the contribution of the other profitable products in Package Services, making the class unprofitable as a whole with a net contribution of negative \$61.2 million. FY 2021 Financial Analysis, Appendix A. The methodology for estimating the cost of uniform rates for Media Mail/Library Mail captures this loss as part of the cost of that element of the USO. To avoid double counting, the loss is not listed separately here.

413 The Postal Service has 2 percentage points of additional rate authority, however, it is aimed only at narrowing the cost-coverage gap over time. If the cost coverage rises to provide positive contribution, the Postal Service’s eligibility for the 2-percentage-point increase would cease. See Order No. 5763 at 357-58; Order No. 5337 at 168-71.

414 FY 2021 Financial Analysis, Appendix A.

415 FY 2021 ACD at 27-28. The Periodicals class is comprised of two products: In-County and Outside County. In-County is typically used by newspapers with smaller weekly circulations for distribution within the county of publication. Outside County consists of publications with a wide variety of circulation sizes, distribution patterns, and frequency. FY 2021 Financial Analysis at 71. Average unit attributable costs for both In-County and Outside County Periodicals increased in FY 2021. *Id.* at 72.

416 FY 2021 Financial Analysis at 72.

417 See Order No. 5763. The final rules are described in Chapter III in the Rulemakings Amending Commission Regulations – Statutory Review of Market Dominant Rate System section above.

418 Order No. 5763 at 159-60, 190-91. Order No. 5763 revised 39 C.F.R. part 3030 to create a new subpart for Non-compensatory Classes or Products. *Id.* at 370; *id.* Attachment at 38-39.

419 See Order No. 5937, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, July 19, 2021.

420 39 U.S.C. § 3651(b)(1)(C).

421 The Postal Service provided updated Rural Mail Count data for FY 2019 through FY 2021. See Docket No. PI2020-1, Response to CHIR No. 6, question 1; Docket No. PI2020-1, Library Reference USPS-PI2020-1/NP5, folder “ChIR6.Q1;” Docket No. PI2020-1, Library Reference USPS-PI2020-1/NP3, folder “Q1;” Docket No. PI2020-1, Library Reference USPS-PI2020-1-NP6, March 31, 2022, Update of Nonpublic Material Provided in Response to CHIR No. 6. Uniform First-Class Mail Rates costs for FY 2019 through FY 2021 methodologies use elasticities based on data that include the respective fiscal year and do not use the forecasting model volumes.

422 See, e.g., Consolidated Appropriations Act, 2021, Pub. L. 116-260, 134 Stat. 1182, 1423 (2020) (“6-day delivery and rural delivery of mail shall continue at not less than the 1983 level[.]”).

423 PSRA § 202, 136 Stat., 1146-47 (2022).

424 The methodology for calculating the current cost of Six-Day Delivery differs from the methodology applied in the USO Report in 2008 because it reflects refined and more comprehensive costs based on the Commission’s findings in its Advisory Opinion on Elimination of Saturday Delivery. See Docket No. N2010-1 Advisory Opinion; Postal Regulatory Commission, *Annual Report to the President and Congress* Fiscal Year 2011, December 21, 2011, at 41.

425 39 U.S.C. § 404(c).

426 39 U.S.C. § 3683.

427 The increase in the unit contribution of Media Mail/Library Mail in FY 2021 is due to the decrease in the unit attributable cost and the increase in unit revenue for Media Mail/Library Mail in FY 2021. See FY 2021 Financial Analysis at 75-76; Appendix A.

428 See FY 2019 Annual Report at 49.

429 See United States Postal Inspection Service, What We Do, Our Jurisdiction is Worldwide, available at <https://www.uspis.gov/about/what-we-do/>.

430 See United States Postal Inspection Service, Leadership, available at <https://www.uspis.gov/leadership>.

431 See United States Postal Inspection Service, What We Do, Our Jurisdiction is Worldwide, available at <https://www.uspis.gov/about/what-we-do/>.

432 See Docket No. ACR2021, Library Reference USPS-FY21-32, December 29, 2021, PDF file “USPS-FY21-32 Preface.pdf,” at 4.

433 18 U.S.C. § 1725.

434 The letter monopoly is codified in the Private Express Statutes. See 18 U.S.C. §§ 1693-99 ; 39 U.S.C. §§ 601-606.

435 Contestable mail is certain mail that is dropshipped to the processing facility or delivery unit closest to its destination.

436 See USO Report at 143-52.

437 The Commission would need route-level, geographic-specific data to account for clustering. Further improvements could be made by assuming the competitor would design routes to more efficiently deliver the contestable mail. However, this would require information about volume delivered to each stop that is not currently available.

438 Although the model assumes a 10 percent discount would be necessary to entice customers to switch, brand loyalty, inertia, the need to prove quality, and other factors affect the pace at which customers would switch from the Postal Service to a competitor. The base case model assumes a competitor would capture 100 percent of the contestable mail on routes that are skimmed. See USO Report at 149. However, some customers may not switch to a competitor even if a discount were offered.

- 439 The base case model entrant delivery frequency differs for the postal and mailbox monopoly estimates calculation, *i.e.*, assumed entrant delivery frequency for the postal monopoly estimate is 3 days a week and 1 day a week for the mailbox monopoly estimate.
- 440 Select Negotiated Service Agreements for Parcel Select Mail were not included as potentially contestable mail to an entrant.
- 441 Subtracting the value of the mailbox monopoly from the value of the postal monopoly does not yield the value of the letter monopoly because there is an overlap in the contestable mail and a different frequency of delivery by the competitor. Without access to mailboxes, it is unlikely that the competitor could successfully capture mail directed to a specific person or address because those mailpieces are delivered to and collected from mailboxes. Therefore, a separate estimate of the value of the letter monopoly alone (retaining the mailbox monopoly) is not provided.
- 442 See USO Report at 144, Table 5 notes 2, 5; 143-46.
- 443 See notes to Table IV-7.
- 444 The FY 2021 estimates reflect the transfer of First-Class Package Service to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the CCCS and the RCCS.
- 445 See USO Report at 144. The monopoly estimates in the USO Report were developed using the FY 2007 CCCS, FY 2007 RCCS, and the FY 2006 Rural Mail Count. USO Report, folder "Appendices," folder "USO Appendices," PDF file "Appendix F Section 4.pdf," at 9 n.9.
- 446 USO Report, folder "Appendices," folder "USO Appendices," PDF file "Appendix F Section 4.pdf," at 10.
- 447 Compare USO Report Table 5 at 144, with Table IV-7.

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