



POSTAL REGULATORY COMMISSION

# Annual Compliance Determination Report

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Fiscal Year 2022

March 29, 2023

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# EXECUTIVE SUMMARY

This Report reviews the Postal Service's *Annual Compliance Report (ACR)* in Fiscal Year (FY) 2022,<sup>1</sup> fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by 39 U.S.C. §§ 3653 and 3705.<sup>2</sup> It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Commission findings and directives are identified in italics in each chapter and summarized in Appendix A.

Consistent with the approach adopted in past years, the *Annual Compliance Determination (ACD)* focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b) and 3705(e). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2022 were not in compliance with chapter 36 and 37 of Title 39 of the United States Code and whether any service standards in effect during FY 2022 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2022-1 and all the rates in effect during FY 2022 for Competitive products.

## **A. Principal Findings: Market Dominant Rate and Fee Compliance**

In Chapter II, the Commission identifies compliance issues related to workshare discounts that did not comply with the Commission's new regulations under 39 C.F.R. part 3030, subpart J. These regulations are aimed at pricing efficiency, as measured by the passthrough ratio, which compares a discount's size with the cost that the Postal Service avoids when the workshare customer instead performs the relevant sortation and/or transportation activities. Under the Efficient Component Pricing (ECP) rule, which guided the Commission's approach, pricing efficiency is achieved when workshare discounts are set equal to their avoided costs (that is, produce passthroughs equal to 100 percent). The Commission's current rules allow for deviation from ECP in certain circumstances.

For the three workshare discounts with passthroughs equal to 100 percent, the Postal Service cannot change the workshare discounts in any rate adjustment proceeding occurring prior to the issuance of the FY 2023 ACD.

For the 21 workshare discounts with passthroughs that exceed 100 percent, the Postal Service must bring the workshare discounts into compliance consistent with 39 C.F.R. § 3030.283 in the next rate adjustment proceeding.

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<sup>1</sup> Docket No. ACR2022, United States Postal Service FY 2022 Annual Compliance Report, December 29, 2022 (FY 2022 ACR).

<sup>2</sup> Chapter 37 of Title 39 of the United States Code was added by the Postal Service Reform Act of 2022 (PSRA), Pub. L. 117-108, 136 Stat. 1127 (2022) and expanded the Postal Service's reporting requirements related to the ACR. Additional discussion related to the PSRA can be found in Chapter I of this Report.

For the 39 workshare discounts with passthroughs below 85 percent, the Postal Service must bring the workshare discounts into compliance consistent with 39 C.F.R. § 3030.284 in the next rate adjustment proceeding.

## **B. Principal Findings: Market Dominant Non-Compensatory Products**

In Chapter III, the Commission identifies non-compensatory products and classes, as well as fully compensatory classes, for Market Dominant products. Consistent with the Commission's new regulations under 39 C.F.R. part 3030, subpart G, the Commission differentiates non-compensatory products within non-compensatory classes and non-compensatory products within compensatory classes. The Commission's new regulations grant additional rate authority to non-compensatory classes and more strictly govern how rate authority must be used for non-compensatory products in compensatory classes. Collectively, the Postal Service lost \$1.32 billion in FY 2022 from non-compensatory classes and products.

The Commission identifies one non-compensatory class, Periodicals, and two non-compensatory products within the non-compensatory class, Periodicals In-County and Periodicals Outside County.

For Periodicals In-County and Periodicals Outside County, although these products experienced improvement in FY 2022, the Commission reiterates its longstanding finding that despite cost reduction initiatives and the maximization of its pricing authority, the costs of these products have risen in the long term, while unit revenue has been unable to keep up with changes in unit costs, negatively effecting cost coverage. The Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its revenue by strategically pricing Periodicals.

The Commission identifies five non-compensatory products within compensatory classes, USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, USPS Marketing Mail Parcels, Media Mail/Library Mail, and Money Orders.

As it relates to USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route, while cost coverage for both products improved in FY 2022, the Commission finds that both products failed to cover their attributable costs and therefore the Postal Service must increase the price for each product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding in which the Postal Service proposes prices for USPS Marketing Mail, consistent with 39 C.F.R. part 3030, subpart G. The Commission also urges the Postal Service to continue to pursue cost reductions for both products.

For USPS Marketing Mail Parcels, the Commission finds that while this product's cost coverage improved in FY 2022, the product still failed to cover its attributable costs and

therefore the Postal Service must increase the price for this product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding in which the Postal Service proposes prices for USPS Marketing Mail, consistent with 39 C.F.R. part 3030, subpart G. The Commission also encourages the Postal Service to continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of the product, and report on those opportunities and results in the FY 2023 ACR.

For Media Mail/Library Mail, the Commission finds that while the cost coverage for this product improved in FY 2022, the product still failed to cover its attributable costs and therefore the Postal Service must increase the price for the product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding in which the Postal Service proposes prices for Package Services, consistent with 39 C.F.R. part 3030, subpart G.

For the Special Services product Money Orders, the Commission finds that the cost coverage for Money Orders improved in FY 2022. However, the product still failed to cover its attributable costs and therefore the Postal Service must increase the price for this product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding in which the Postal Service proposes prices for Special Services, consistent with 39 C.F.R. part 3030, subpart G. The Commission also encourages the Postal Service to look for ways to reduce product costs, including the reduction of window service costs.

The Commission identifies one fully compensatory class, First-Class Mail, in which all products covered their attributable costs.

## **C. Principal Findings: Competitive Products Rate and Fee Compliance**

In Chapter IV, the Commission finds that revenues for Competitive products as a whole exceeded incremental costs. As such, Competitive products were not subsidized by Market Dominant products during FY 2022, thereby satisfying 39 U.S.C. § 3633(a)(1). Collectively, Competitive products satisfied the appropriate share requirement of 39 U.S.C. § 3633(a)(3) during FY 2022. Moreover, while most Competitive products' revenues covered their attributable costs in compliance with 39 U.S.C. § 3633(a)(2), revenues for five Competitive products did not do so. The Competitive products that did not cover attributable costs are International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), Competitive International Ancillary Services, as well as two negotiated service agreements (NSAs) — Priority Mail Contract 543 and Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5. The Commission directs the Postal Service to take corrective action as it relates to these products except for Priority Mail

Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5, which expired during FY 2022 and was not renewed.

The Commission also gathered additional information as it relates to a Pilot Program being run by the Postal Service which allows postal retail customers to use payroll and business checks to purchase stored value Gift Cards, which is a Competitive product. Questions remain with regard to this time-limited Pilot Program. The Commission again reminds the Postal Service that the Commission regulates what products may be offered, controls the addition and removal of products through the Mail Classification Schedule (MCS), and thus instructs the Postal Service to ensure that future changes that have an impact on a product's use or classification be filed with the Commission. The Commission further notes that the Postal Service is not lawfully empowered to make unilateral decisions regarding what is or is not a new or experimental product. Finally, the Commission continues to direct the Postal Service to file quarterly reports on the Pilot Program and the Gift Card product as a whole.<sup>3</sup> These reports must be filed in Docket No. MC2022-60 and shall include information on volume, revenue, and costs (which should include training-related costs, labor costs associated with the retail transactions, and supply costs) separately for Gift Cards purchased as part of the Pilot Program and all Gift Cards. The report must also include whether Gift Cards, both in general and those sold as part of the Pilot Program, are likely to be mailed or otherwise promote the use of the mail (for example, number of Gift Cards purchased in a transaction that included other postal products). Finally, the report must include any plans for modifications or other future plans of the Pilot Program or Gift Card product, including any plans for termination of the Pilot Program.

Finally, as it relates to the Postal Service's agreement with other government agencies for the provision of nonpostal products (also known as Interagency Agreements (IAAs)), the Commission finds that the Postal Service's IAAs provided a net contribution to the Postal Service in compliance with 39 U.S.C. § 3704.<sup>4</sup> For these IAAs, the Commission recognizes that there is a need to establish an accepted methodology (or methodologies) for calculating the revenue and attributable costs associated with IAAs entered into by the Postal Service as authorized under 39 U.S.C. §§ 3703 and 3704 in the future. Therefore, the Commission directs the Postal Service to develop a proposed methodology (or methodologies) for calculating and attributing costs and revenue to interagency agreements entered into by the Postal Service as authorized under 39 U.S.C. §§ 3703 and 3704. The Postal Service must file this proposed methodology (or methodologies) by initiating a rulemaking proceeding (or proceedings) in accordance with 39 C.F.R. § 3050.11 no later than May 31, 2023.

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<sup>3</sup> Chairman Kubayanda and Commissioner Poling do not agree with including the Gift Card product as a whole in this directive.

<sup>4</sup> The Commission made no finding of compliance with 39 U.S.C. § 3703 because no agreements with state, local, or tribal governments were in effect in FY 2022.

## D. Principal Findings: Service Performance

In Chapter V, the Commission finds that a significant number of Market Dominant products failed to meet their service performance targets for FY 2022 and directs the Postal Service to take corrective action. Of the 27 Market Dominant products/categories measured, 13 products/categories (48 percent) did not meet their targets in FY 2022, and some were substantially below the applicable target.

The Postal Service met its service performance targets for 14 Market Dominant products/categories in FY 2022:

- four First-Class Mail categories (2-Day Single-Piece Letters and Cards and Overnight, 2-Day, and 3-5-Day Presorted Letters and Cards),
- four USPS Marketing Mail products (Letters, Carrier Route, Parcels, and High Density and Saturation Letters),
- both Periodicals products (In-County and Outside County),
- one Package Services product (Bounded Printed Matter (BPM) Parcels), and
- three Special Services products (International Ancillary Services, Money Orders, and Stamp Fulfillment Services).

Service performance results for the following Market Dominant products did not meet their targets and were found to be out of compliance in FY 2022:

- four First-Class Mail products (3-5-Day Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Single-Piece Outbound International),
- three USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Flats, and Every Door Direct Mail—Retail (EDDM-R)),
- two Package Service products (BPM Flats and Media Mail/Library Mail), and
- two Special Services products (Ancillary Services and Post Office Box Service).

The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these non-compliant products in FY 2023. The Commission has also specifically developed directives that are designed to elicit information and data from the Postal Service regarding service performance for non-compliant products and the steps that the Postal Service will take to restore service performance for those products in FY 2023. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this Report and as part of its FY 2023 ACR.

# CHAPTER I. INTRODUCTION

## A. Statutory Context

Section 3652 of Title 39 of the United States Code requires the Postal Service to file certain reports with the Commission regarding Postal Service costs, revenues, rates, and service during the prior fiscal year, including the Postal Service's ACR.<sup>5</sup> Section 3653(b) requires the Commission to review the Postal Service's ACR and issue an ACD evaluating whether rates or fees were non-compliant with the applicable provisions of chapter 36 of Title 39 of the United States Code (or the regulations issued thereunder) and whether any service standards were not met in the fiscal year under review. 39 U.S.C. § 3653(b).

On April 6, 2022 (during FY 2022 Quarter 3), the Postal Service Reform Act of 2022 (PSRA) amended Title 39 of the United States Code and other relevant statutory provisions.<sup>6</sup> Among other changes, newly added chapter 37 of Title 39 of the United States Code expanded the Postal Service's reporting requirements related to the ACR to include costs, revenues, rates, and quality of service for nonpostal services in effect during the fiscal year under review. *See* 39 U.S.C. § 3705(a). Newly added 39 U.S.C. § 3705(e) requires the Commission to review the Postal Service's reporting related to nonpostal services and determine whether the activities carried out in the fiscal year under review complied with applicable provisions of chapter 37 of Title 39 of the United States Code.<sup>7</sup>

The provisions of chapters 36 and 37 of Title 39 of the United States Code establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service. This ACD focuses on the requirements appearing in 39 U.S.C. §§ 3653(b)(1), 3653(b)(2), and 3705(e). The Commission addresses only matters that have been challenged by commenters or otherwise present compliance issues.

Consistent with past practice, the Commission plans to issue its analysis of the Postal Service's financial results and Form 10-K later in FY 2023.<sup>8</sup> Similarly, the Commission will

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<sup>5</sup> The ACR is filed in accordance with the provisions appearing in 39 U.S.C. § 3652(a) through (f). In conjunction with filing the ACR, the Postal Service must also file its most recent *Comprehensive Statement on Postal Operations*, its *FY 2023 Performance Plan*, and its *FY 2022 Performance Report*. 39 U.S.C. § 3652(g).

<sup>6</sup> Pub. L. 117-108, 136 Stat. 1127 (2022).

<sup>7</sup> 39 U.S.C. § 3705(e); *see* 39 U.S.C. § 3652(a). Consistent with 39 U.S.C. § 3705(f), the Commission intends to initiate a rulemaking proceeding that would prescribe the reporting requirements for the Postal Service and the Commission's compliance review associated with the analyzation of costs, revenues, and rates for agreements that provide property or nonpostal services for use in future ACR filings. The Commission has already promulgated 39 C.F.R. § 3055.25 prescribing the reporting requirements for the Postal Service relating to quality of service for agreements that provide property or nonpostal services for use in future ACR filings. *See* Docket No. RM2022-7, Order Revising Rules for Periodic Reporting of Service Performance, February 9, 2023, Attachment at 8-9 (Order No. 6439).

<sup>8</sup> *See, e.g.*, Docket No. ACR2021, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, May 18, 2022 (FY 2021 Financial Analysis).

continue publishing a separate analysis evaluating the Postal Service's performance plans and program performance report pursuant to 39 U.S.C. § 3653(d).<sup>9</sup>

## **B. Timeline and Commission Responsibilities**

The Postal Service must file the ACR no later than 90 days after the end of each fiscal year. (*i.e.*, 90 days after September 30). Upon receipt of the ACR, the Commission provides an opportunity for public comment on the Postal Service's submissions.<sup>10</sup> For the fiscal year under review, the Commission must make a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapters 36 and 37 of Title 39 or related regulations and whether any service standards were not met. 39 U.S.C. § 3653(b); 39 U.S.C. § 3705(e). If the Commission makes a timely written determination of non-compliance, it shall take such action as it deems appropriate. 39 U.S.C. § 3653(c); 39 U.S.C. § 3705(e)(3). The Commission must complete the ACD within 90 days of receiving the ACR. 39 U.S.C. § 3653(b); 39 U.S.C. § 3705(e)(2). The Postal Service filed the FY 2022 ACR on December 29, 2022; thus, the Commission must issue this ACD no later than March 29, 2023.

## **C. Focus of the ACR**

The focus of the ACR filed by the Postal Service is to “analyze costs, revenues, rates, and quality of service, using such methodologies as the Commission shall by regulation prescribe, and in sufficient detail to demonstrate that all products during such year complied with all applicable requirements of this title....” 39 U.S.C. § 3652(a)(1).

For Market Dominant products, the Postal Service must include product information, mail volumes, and measures of quality of service, including the speed of delivery, reliability, and the degree of customer satisfaction. 39 U.S.C. § 3652(a)(2); 39 C.F.R. pt. 3055. For Market Dominant products with workshare discounts, the Postal Service must report the per-item cost it avoided through the worksharing activity performed by the mailer, the percentage of the per-item cost avoided that the current workshare discount represents, and the per-item contribution to institutional costs. 39 U.S.C. § 3652(b). In addition, the Commission posts the most current workshare cost avoidance models on its website. The Commission used those models in its preparation of this ACD.

For Competitive products, the Postal Service must demonstrate that all Competitive products complied with 39 U.S.C. § 3633, which prohibits the subsidization of Competitive products by Market Dominant products and requires that each Competitive product covers its attributable costs and that Competitive products collectively cover what the

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<sup>9</sup> See Notice Requesting Comments on the Postal Service FY 2022 Annual Performance Report and FY 2023 Annual Performance Plan, January 11, 2023 (Order No. 6407). Initial and reply comment deadlines were established as March 15, 2023, and March 29, 2023, respectively. Order No. 6407 at 3-4.

<sup>10</sup> 39 U.S.C. § 3653(a). Additionally, the Commission is required to appoint an officer of the Commission who shall represent the interests of the public. *Id.*; see 39 U.S.C. § 505.

Commission determines to be an appropriate share of the Postal Service's institutional costs. *See* 39 U.S.C. § 3633(a).

For nonpostal services in effect during the fiscal year under review, the Postal Service must demonstrate compliance with the applicable provisions of chapter 37 of Title 39 of the United States Code. *See* 39 U.S.C. § 3705(e)(2). For agreements with an agency of any State government, local government, or tribal government to provide property or nonpostal services to the public on behalf of such agencies for non-commercial purposes entered into under 39 U.S.C. § 3703, the Postal Service must include costs, revenues, rates, and quality of service for each agreement or substantially similar set of agreements. 39 U.S.C. § 3705(a)(1). For the Postal Service's program to provide property and nonpostal services to other Government agencies within the meaning of 39 U.S.C. § 411<sup>11</sup>, the Postal Service must include costs, revenues, rates, and quality of service for the program as a whole established under 39 U.S.C. § 3704. 39 U.S.C. § 3705(a)(1).

## D. Accepted Analytical Principles

By regulation, in developing periodic reports such as the ACR, the Postal Service must use only accepted analytical principles. *See* 39 C.F.R. § 3050.10. Accepted analytical principles refer to economic, mathematical, or statistical theories, precepts, or assumptions that were applied by the Commission in its most recent ACD, unless different analytical principles were subsequently accepted by the Commission in a final rule. 39 C.F.R. § 3050.1(a), (c). In this proceeding, the Postal Service relies upon seven approved methodology changes.<sup>12</sup> The Postal Service discusses the effect of methodology changes to FY 2022 ACR library references in Library Reference USPS-FY22-9 (Roadmap Document).<sup>13</sup>

In FY 2022, the PSRA resulted in significant changes to the Postal Service's balance sheet, which has led to a dispute over the Postal Service's use of accepted analytical principles for this fiscal year. Specifically, the PSRA repealed former 5 U.S.C. § 8909a(d), thereby eliminating the requirement of annual retiree health benefit (RHB) payments, including contributions to the Postal Service Retiree Health Benefits Fund for the normal costs of RHBs<sup>14</sup> as well as unfunded amortization payments. PSRA § 102(b); *see* 5 U.S.C. § 8909a(d). The PSRA further relieved the Postal Service of defaulted accruals for RHBs. PSRA § 102(b); *see* 5 U.S.C. § 8909a.

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<sup>11</sup> This refers to "Executive agencies within the meaning of [5 U.S.C. § 105] and the Government Publishing Office...." 39 U.S.C. § 411. Section 105 of Title 5 of the United States Code specifies that an "'Executive agency' means an Executive department, a Government corporation, and an independent establishment." 5 U.S.C. § 105.

<sup>12</sup> Docket No. RM2021-4, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), February 22, 2022 (Order No. 6109); Docket No. RM2022-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), September 23, 2022 (Order No. 6280); Docket No. RM2022-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), September 12, 2022 (Order No. 6272); Docket No. RM2022-10, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Four), September 23, 2022 (Order No. 6279); Docket No. RM2022-11, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), October 20, 2022 (Order No. 6307); Docket No. RM2022-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), November 3, 2022 (Order No. 6322).

<sup>13</sup> Library Reference USPS-FY22-9, December 29, 2022, file "USPS-FY22-9 Roadmap.pdf," at 92-108 (Roadmap Document).

<sup>14</sup> Normal costs represent the present value of the estimated RHBs attributable to active employees' current year of service. *See* FY 2021 Financial Analysis at 7 n.9 (citing United States Postal Service, 2021 Report on Form 10-K, November 10, 2021, at 39).

In Docket No. RM2023-1, the Commission outlined the accepted analytical principles governing the treatment of the PSRA-related changes described above.<sup>15</sup> As it relates to RHB amortization and normal costs, the Commission determined that “[a]ccepted analytical principles dictate the treatment of costs incurred by the Postal Service, and do not require the inclusion of costs that are not incurred.” It concluded that “[a]s a result, under the accepted methodology, there are no amortization and normal costs to account for in the Postal Service’s financial reporting for FY 2022.”<sup>16</sup>

In the FY 2022 ACR, the Postal Service did not include or attribute the RHB normal costs, consistent with the direction set forth by the Commission in Order No. 6363 and the current accepted analytical principles in effect at the time of filing. The Commission acknowledges that the absence of attributable RHB normal costs has observable effects on figures reported by the Postal Service in the FY 2022 ACR when compared to prior years when the Postal Service incurred and attributed such costs.<sup>17</sup> Specifically, the absence of attributable RHB normal costs due to the PSRA impacted product-level cost coverage as well as the avoided cost calculations which form the foundation of the Postal Service’s system of workshare discounts.

The Commission encouraged interested parties to file a petition to initiate a change in analytical principles pursuant to 39 C.F.R. part 3050 should any party “desire the Commission rely on a different analytical principle” associated with the treatment of RHB normal costs. Order No. 6363 at 11. As a result, a coalition of mailer associations filed such a petition,<sup>18</sup> which the Commission considered in Docket No. RM2023-3. *See* Order No. 6430. The Commission’s review of the petition took place concurrently with its analysis in the Annual Compliance Review docket. In Order No. 6464, the Commission rejected the petition to include and attribute RHB normal costs in FY 2022 and determined that the current analytical principles that apply to RHB benefits normal costs should not be changed.<sup>19</sup> To the extent that commenters discuss concerns related to this treatment of RHB normal costs in the FY 2022 cost data, the Commission notes that those comments fall

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<sup>15</sup> Docket No. RM2023-1, Order Granting Petition, in Part, for Reconsideration, December 9, 2022, at 10 (Order No. 6363).

<sup>16</sup> Order No 6363 at 10. As it relates to the PSRA’s forgiveness of defaulted accruals, the Commission stated that “currently accepted analytical principles dictate that this reallocation be treated in the same manner as Cost Segment 18, Component 203 was during the FY 2021 ACD. This treatment would result in including the \$56.9 billion as offsetting institutional costs.” *Id.* at 9.

<sup>17</sup> The accepted analytical principle for attributing RHB normal costs consists of “applying the estimated labor volume variabilities to the retiree health benefit normal costs in the same proportions as direct labor costs.” Docket Nos. RM2023-1 and RM2023-3, Order Denying Request for Reconsideration and Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (NPPC et al. Proposal One), January 25, 2023, at 17 (Order No. 6430). Using this methodology, a portion of RHB normal costs were attributed to products in prior years. Order No. 6430 at 17. However, the accepted analytical principles also include a limiting principle that sets the Postal Service’s RHB accounting costs as a ceiling that attributed RHB normal costs cannot exceed. *Id.* at 19. Due to the PSRA, there are no RHB accounting costs in FY 2022, and thus there are no RHB normal costs that can be attributed in FY 2022 due to the additional limiting principle. *Id.* at 23.

<sup>18</sup> Docket Nos. RM2023-1 and RM2023-3, Motion for Reconsideration or, in the Alternative, Petition to Initiate a Proceeding Regarding the Appropriate Analytical Principle for Retiree Health Benefit Normal Costs, December 19, 2022.

<sup>19</sup> *See* Docket No. RM2023-3, Order Rejecting Proposed Changes to Accepted Analytical Principles (NPPC et al. Proposal One), March 27, 2023 (Order No. 6464). The Commission separately addressed a proposal to change the accepted analytical principle regarding the treatment of the PSRA’s forgiveness of defaulted accruals. *See* Docket No. RM2023-2. The Commission approved a one-time change as part of Order No. 6459. *See* Docket No. RM2023-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), March 17, 2023 (Order No. 6459).

outside the scope of this proceeding and—to the extent they were also raised in Docket No. RM2023-3—were addressed as part of that proceeding.<sup>20</sup>

To the extent that any commenters argue that certain events occurring in FY 2022 could frustrate the meaningfulness of comparing FY 2022 data with prior years,<sup>21</sup> the Commission observes that 39 U.S.C. §§ 3652 and 3653 do not require the Commission to complete year-over-year comparisons or analysis of historical trends as part of the ACD. Each year's ACR presents data that reflect the revenue generated and costs incurred in that fiscal year, as calculated using the accepted analytical principles. Changes from one year to the next reflect the effects of many factors such as demand, input prices, operational changes, and legal obligations, in addition to changes in accepted analytical principles. Identifying factors that may have had a substantial impact can assist with interpreting the changes between years, but it is not necessary to adjust for such effects for prior years to be comparable. In addition, in Order No. 6464, the Commission found that maintaining the current accepted analytical principles with regard to the treatment of RHB normal costs allowed for more accurate comparison of year-over-year cost data. Order No. 6464 at 37.

With respect to any arguments that failing to attribute RHB normal costs creates systemic issues that could frustrate the achievement of the objectives of the Market Dominant ratemaking system set forth in 39 U.S.C. § 3622(b) or that the Commission must decline to make compliance decisions enforcing the regulations set forth by that system,<sup>22</sup> the Commission observes that consideration of systemic changes is also outside the scope of Annual Compliance Review dockets and is instead to be considered via a Rulemaking proceeding.<sup>23</sup> Therefore, the Commission declines to make any systemic changes to its regulations in any Annual Compliance Review proceeding and is obligated to make compliance decisions warranted by the regulations and the accepted analytical principles. Instead, the Commission remains committed to conducting a review of the Market

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<sup>20</sup> See, e.g., NPPC Comments at 3 (“Retiree [health] benefits comprise part of the economic costs of postal operations ... [The National Postal Policy Council] estimates that any cost figure – including unit costs and costs avoided by worksharing -- that is based on attributable labor costs is understated, perhaps by as much as 7 percent.”); *id.* at 3-4 (“It also follows that the Commission should regard with substantial skepticism any Postal Service claims of cost reductions. To the extent that reported costs are lower than in past year[s] because of the exclusion of RHB normal costs, such reduced cost is caused neither by operational decisions nor by improved efficiency.”); Pitney Bowes Comments at 3 (“The Postal Service’s exclusion of attributable retiree health benefit (RHB) normal costs from the modeled cost avoidance estimates presented in the FY2022 ACR will result in understated cost avoidance estimates and, thus, inaccurate workshare compliance findings.”); NAPM Comments at 7 (“Although the PRC has accepted [RHB normal costs] treatment as the current analytic[al] principle, these omissions have implications for ... the PRC’s compliance findings in its Annual Compliance Determination (ACD)....”); PostCom Comments at 2 (“[T]he Postal Service’s decision to not accrue RHB Normal Costs has produced distorting effects in measured costs.”).

<sup>21</sup> See, e.g., NPPC Comments at 2 (“The FY 2022 ACR is not comparable to previous ACRs because of the omission of retiree health benefit normal costs[.]”).

<sup>22</sup> See, e.g., Pitney Bowes Comments at 3 (“The systematic understatement of costs and, by extension, modeled costs avoided frustrates the efficiency objectives of the Commission’s workshare rules....”). See also NPPC Comments at 1, 5-11 (arguing that because the costs are understated, the Commission should decline to follow the regulations set forth in 39 C.F.R. §§ 3030.283 and 3030.284); PostCom Comments at 2 (arguing “against continued application of the additional two percent rate authority for non-compensatory products” as specified in 39 C.F.R. § 3030.222).

<sup>23</sup> Additionally, two petitions for rulemaking remain pending before the Commission that seek revisions to the regulations governing the Market Dominant ratemaking system to reflect the enactment of the PSRA. 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.

Dominant ratemaking system 5 years after the date of its enactment.<sup>24</sup> The modified Market Dominant ratemaking system took effect on January 14, 2021.<sup>25</sup> Therefore, the Commission plans to initiate the 5-year review in early Calendar Year (CY) 2026.<sup>26</sup>

Moreover, in connection with the Consolidated Appropriations Act, 2022 (the Appropriations Act), the Commission prepared the *Report on Rate Increases for Market Dominant Products*, which it published on December 9, 2022.<sup>27</sup> As part of the Appropriations Act making appropriations to the Commission for its FY 2022 budget, the House Committee on Appropriations (the Committee) stated that it is “concerned with the size and timing of the [Postal Service’s August 2021] rate increase [for Market Dominant products] and that the [Postal Accountability and Enhancement Act of 2006 (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].”<sup>28</sup> The Commission concluded that “the size and timing of the August 2021 rate increase were consistent with applicable law and show the modified ratemaking system was working as intended to address specific drivers of the Postal Service’s net losses outside of its direct control.” 2022 Market Dominant Rate Increase Report at 51. As instructed by the Committee, the Commission “considered the impact of the pandemic (including higher package revenues and emergency funding provided by the [Coronavirus Aid, Relief, and Economic Security] Act) on the modified ratemaking system and rate increases and found it did not alter its findings that the initial ratemaking system failed and the modified system is necessary to achieve the statutory objectives.” *Id.*

## E. Organization of the FY 2022 ACD

In Chapter II, the Commission evaluates the workshare discounts for Market Dominant products to determine compliance with applicable statutory and regulatory requirements. *See* 39 U.S.C. § 3622(e); 39 C.F.R. pt. 3030, subpt. J. Chapter III focuses on other compliance issues related to Market Dominant products’ rates and fees, including non-compensatory classes and products and Market Dominant nonpostal services. Chapter IV covers compliance issues related to the rates and fees of Competitive products, as well as

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<sup>24</sup> Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020, at 267 (Order No. 5763) (“A thorough and insightful review must provide more than two rate cycles as data points to assess the impact of the changes to the Market Dominant ratemaking system. An abbreviated review period would not provide the Commission with sufficient data to evaluate the final rules in operation, account for outlying data, and determine the impact on mailers.”). The Commission further indicated, as needed to address anomalies, the Commission may undertake isolated rulemaking proceedings sooner than the scheduled 5-year timeframe. Order No. 5763 at 20, 83, 93, 117, 272-73.

<sup>25</sup> System for Regulating Market Dominant Rates and Classifications, 85 Fed. Reg. 81,124 (Dec. 15, 2020) (codified at 39 C.F.R. pts. 3030, 3040, 3045, 3050, 3055).

<sup>26</sup> *See* Order No. 5763 at 267 (“[T]he Commission intends ‘5 years after implementation’ to mean 5 years after the date the final rules go into effect.”).

<sup>27</sup> Postal Regulatory Commission, *Report on Rate Increases for Market Dominant Products*, December 9, 2022 (2022 Market Dominant Rate Increase Report), available at <https://www.prc.gov/docs/123/123720/Rate%20Increases%20for%20M-D%20Products.pdf>.

<sup>28</sup> H.R. Rep. No. 117-79, at 100 (2021). The Joint Explanatory Statement accompanying the Appropriations Act directs the Commission to consult with stakeholders for its report on Market Dominant products. 168 Cong. Rec. H1709 (daily ed. Mar. 9, 2022) (explanatory statement submitted by Rep. Rosa L. DeLauro, Chair of the House Committee on Appropriations, regarding the House amendment to the Senate amendment to H.R. 2471, Consolidated Appropriations Act, 2022).

Competitive nonpostal services. In Chapter V, the Commission discusses service performance, customer access, and customer satisfaction.

There are four appendices to this ACD. Appendix A contains Commission directives in this ACD. Appendix B contains a list of the initial and reply comments filed in this proceeding and the citations to these filings, organized by commenter. Appendix C contains a list of Commission Information Requests (CIRs), Chairman's Information Requests (CHIRs), the Postal Service's responses to the information requests, and the citations to these filings, organized in numerical order. Appendix D contains an index of acronyms and abbreviations used in this ACD.

In prior ACDs, the Commission has separately analyzed and discussed the significant challenges facing the Postal Service associated with the processing and delivery of flat-shaped mailpieces in a cost-effective manner.<sup>29</sup> As part of the PSRA, Congress required the Commission to investigate and study the inefficiencies in the Postal Service's flats operations. *See* PSRA § 206(a)(1). On July 14, 2022, the Commission initiated its study concerning Flats operations (Flats Study) in order to "comprehensively identify the causes of inefficiencies in the collection, sorting, transportation, and delivery of Flats" and allow the Commission to "quantify the effects of volume trends, investments decisions, excess capacity, and operational inefficiencies of the Postal Service on the direct and indirect costs of the Postal Service that are attributable to Flats."<sup>30</sup> The Commission's Flats Study must be submitted no later than April 6, 2023. *See* PSRA § 206(a)(3). As a result of the Flats Study, the Commission will not provide a separate chapter related to flat-shaped mailpieces in this ACD.

## F. Procedural History

On December 29, 2022, the Postal Service filed its FY 2022 ACR, covering the period from October 1, 2021, through September 30, 2022. *See* FY 2022 ACR. The ACR includes an extensive narrative and a substantial amount of detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and volume information presented in billing determinants. The library references also include the Postal Service's Roadmap Document to the FY 2022 ACR, which contains a brief description of each library reference, a summary of material changes in methodology, and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12. *See* Roadmap Document, *supra*, n.13.

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<sup>29</sup> *See, e.g.*, Docket No. ACR2021, *Annual Compliance Determination*, March 29, 2022, at 228-77 (FY 2021 ACD); Docket No. ACR2020, *Annual Compliance Determination*, March 29, 2021, at 236-62 (FY 2020 ACD).

<sup>30</sup> Docket No. SS2022-1, Notice Initiating Proceeding for Flats Operations Study, July 14, 2022, at 1-2 (quoting PSRA § 206(a)(1)(A), (a)(1)(B)).

The Postal Service concurrently filed its FY 2022 *Annual Report* and FY 2022 *Comprehensive Statement on Postal Service Operations* as part of Library Reference USPS-FY22-17 to the FY 2022 ACR.<sup>31</sup>

On January 3, 2023, the Commission issued an order establishing Docket No. ACR2022 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing January 31, 2023, and February 14, 2023, as the deadlines for comments and reply comments, respectively.<sup>32</sup>

## G. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to concomitantly file an application for non-public treatment. 39 C.F.R. § 3011.200(a). The application for non-public treatment must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public. *Id.* § 3011.201. The FY 2022 ACR includes such an application with respect to certain Competitive and international Market Dominant products. FY 2022 ACR, Attachment 2.

On January 13, 2023, United Parcel Service, Inc. (UPS) filed a motion for access to non-public information filed as part of the Postal Service's ACR.<sup>33</sup> The Commission evaluated the Postal Service's response and ultimately granted this motion in full.<sup>34</sup>

## H. Requests for Additional Information

Two CIRs and fifteen CHIRs were issued with respect to the ACR from January 3, 2023, to March 28, 2023. *See generally* Appendix C. The Postal Service responded to the CIRs and CHIRs, often filing supplemental information in support of the responses.<sup>35</sup> In response to CHIR No. 16, the Postal Service filed a motion for reconsideration requesting that the Commission reconsider the scope of question 2 of CHIR No. 16.<sup>36</sup> This Postal Service Motion is pending before the Commission.

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<sup>31</sup> Library Reference USPS-FY22-17, December 29, 2022, file "FY2022 Annual Report to Congress.pdf" (*FY 2022 Annual Report*).

<sup>32</sup> Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, January 3, 2023 (Order No. 6396). On January 11, 2023, the Commission established separate comment deadlines for the Postal Service's FY 2022 annual performance report (FY 2022 Report) and FY 2023 annual performance plan (FY 2023 Plan). Order No. 6407 at 3, 4.

<sup>33</sup> United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 13, 2023, at 1.

<sup>34</sup> Order Granting Motion for Access, in Part, January 18, 2023 (Order No. 6417) (granting access to non-public library references for which UPS represented that the Postal Service authorized UPS to represent as uncontested); Order Granting Motion for Access, January 25, 2023 (Order No. 6429) (granting access to remaining non-public library references); *see* United States Postal Service Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 20, 2023.

<sup>35</sup> *See generally id.* With respect to the Postal Service's Response to CHIR No. 10, the Postal Service filed a motion for extension of time to respond to question 9, including a request to reduce the scope of the question. Motion for Extension of Time to Respond and for Partial Reconsideration of Question 9 of Chairman's Information Request No. 10, February 9, 2023. The Commission granted the motion, providing the Postal Service with additional time to respond and narrowing the scope of CHIR No. 10, question 9. Order Granting Motion for Extension of Time to Respond and for Partial Reconsideration of Question 9 of Chairman's Information Request No. 10, February 10, 2023 (Order No. 6440).

<sup>36</sup> United States Postal Service Motion for Reconsideration of Question 2 of Chairman's Information Request No. 16, March 9, 2023 (Postal Service Motion).

The National Postal Policy Council (NPPC), the Association for Postal Commerce (PostCom), the Major Mailers Association (MMA), the National Association of Presort Mailers (NAPM), and N/MA – The News/Media Alliance (N/MA) (collectively, NPPC *et al.*) filed a motion for issuance of an information request on January 18, 2023, with questions they stated were intended “to provide data necessary for an accurate assessment of workshare discounts.”<sup>37</sup> The Postal Service opposed all requested questions and urged the Commission to reject the NPPC *et al.* Motion.<sup>38</sup> The Commission denied the motion, finding that the information sought by NPPC *et al.* was premature at this time and would not have been of material assistance to the Commission.<sup>39</sup>

On January 19, 2023, Steve Hutkins filed a motion for issuance of information requests with questions he stated “would be beneficial to the Commission’s annual evaluation of the Postal Service’s compliance with the provisions of 39 U.S.C. § 3652 and with the related regulations regarding Customer Access to Postal Services as set forth in 39 C.F.R. § 3055.91.”<sup>40</sup> The Postal Service opposed four of the proposed questions and urged the Commission to decline to issue proposed questions 7 through 10.<sup>41</sup> The Commission partially granted the Hutkins Motion; CHIR No. 8 was issued containing proposed questions 7 through 9 with some rephrasing.<sup>42</sup> The Commission rejected issuing proposed question 10 because it was not appropriate for an Annual Compliance Review proceeding, given that the Hutkins Motion did not demonstrate how proposed question 10 related to FY 2022 compliance. Order No. 6432 at 8-10.

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<sup>37</sup> Motion for Issuance of Chairman’s Information Request, January 18, 2023, at 1 (NPPC *et al.* Motion).

<sup>38</sup> Response of the United States Postal Service in Opposition to Mailers’ Motion Seeking Information Request, January 19, 2023, at 6-7.

<sup>39</sup> Order Denying Motion for Information Request, January 27, 2023, at 6-7 (Order No. 6431).

<sup>40</sup> Motion for Issuance of Information Request, January 19, 2023, at 1 (Hutkins Motion).

<sup>41</sup> Response of the United States Postal Service in Opposition to Steve Hutkins’ Motion for Issuance of Information Requests, January 20, 2023.

<sup>42</sup> Order Granting in Part and Denying in Part Steve Hutkins’ Motion for Issuance of Information Request, January 30, 2023, at 5, 8 (Order No. 6432); CHIR No. 8, questions 1-3 (incorporating proposed questions 7 through 9). With respect to the proposed questions 1-6, which the Postal Service did not explicitly oppose, the thrust of the proposed questions was incorporated (with adjustments to phrasing and timing of issuance, as proportional to the needs of Docket No. ACR2022) within multiple lines of inquiry pursued via CHIRs. See Order No. 6432 at 2-3 n.3; see also CHIR No. 6, questions 6.b., 9 (incorporating proposed question 5 and inquiry related to proposed question 6); CHIR No. 7 (incorporating proposed questions 1 through 3); Revised CHIR No. 10, question 24 (incorporating further inquiry related to proposed question 6); Docket No. ACR2021, Chairman’s Information Request No. 35, February 14, 2023, question 1 (incorporating inquiry related to proposed question 4).

# CHAPTER II. MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

## A. Introduction

The system for regulating rates and classes for Market Dominant products was modified in FY 2021 as new regulations went into effect on January 14, 2021, which included new rate authority mechanisms and new requirements for workshare discounts. *See generally* Order No. 5763. Chapter II discusses the class-level price cap and workshare discounts.

## B. The Class-Level Price Cap

The Commission approved one price adjustment that went into effect during FY 2022, which complied with all rate authority provisions, in accordance with 39 C.F.R. part 3030, subparts C, D, E, and G.<sup>43</sup>

## C. Workshare Discounts

Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform such as presorting, barcoding, handling, or transportation and relieves the Postal Service of the cost of performing those activities. These workshare discounts are based on the avoided costs that result from the mailer performing the activity instead of the Postal Service.

A passthrough represents the relationship between the amount of the workshare discount and the avoided cost, calculated by dividing the workshare discount by its avoided cost and expressing the result as a percentage.<sup>44</sup> When a workshare discount equals avoided cost, the passthrough is 100 percent. If a workshare discount is less than the avoided cost, then the passthrough is below 100 percent. Conversely, if a workshare discount is greater than the avoided cost, then the passthrough is above 100 percent.

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<sup>43</sup> See 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 (Order No. 6188).

<sup>44</sup> For example, if the Postal Service offers a discount of \$0.020 for mailers to apply a barcode to their mail, and this barcoding allows the Postal Service to avoid \$0.022 in cost, then the worksharing passthrough is calculated as  $\$0.02/\$0.022 = 0.909$  or a passthrough of 90.9 percent. Workshare discounts are “rounded to the nearest thousandth or \$0.001” while historically the avoided cost was unrounded, and the passthrough percentage was “rounded to the nearest tenth.” See Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019, at 205 (Order No. 5337). However, the Commission has determined, to improve consistency, that the workshare discount and the avoided cost should be rounded to the same number of decimal places. Thus, both the workshare discount and the avoided cost should be rounded to three decimal places (*i.e.*, the nearest thousandth or \$0.001). The passthrough (expressed as a percentage) should continue to be rounded to one decimal place.

The Commission's regulations impose several requirements on non-conforming workshare discounts that must be complied with in each rate adjustment proceeding. First, based on the avoided costs established in the most recent ACD, workshare discounts set above avoided costs cannot be increased, workshare discounts set below avoided costs cannot be decreased, and workshare discounts with 100 percent passthroughs cannot be changed. 39 C.F.R. § 3030.282. Additionally, workshare discounts cannot be set above or below their avoided costs in a rate adjustment proceeding unless a specific exemption applies. *Id.* §§ 3030.283, 3030.284. One such exception is that a workshare discount set below its avoided cost is permitted if it has a passthrough of at least 85 percent. *Id.* § 3030.284(e). The remaining exceptions related to workshare discounts set above and below their avoided costs are discussed in more detail below.

Workshare discounts are primarily regulated through rate adjustment proceedings, and only workshare discounts consistent with the regulations are approved by the Commission and permitted to go into effect.<sup>45</sup> However, because changes in avoided costs are calculated for each fiscal year in the ACR proceeding, the Commission also analyzes workshare discounts' consistency with the regulations as part of this Report.

## 1. Workshare Discount Data Used in Report

The Commission determines workshare discount compliance by identifying which workshare discounts had passthroughs that either exceeded 100 percent or fell below 85 percent. Order No. 5337 at 207; Order No. 5763 at 199. In addition, the Commission identifies those workshare discounts that were equal to their avoided costs. Order No. 5337 at 207; Order No. 5763 at 199. Non-compliant workshare discounts must be brought into compliance in the next rate adjustment proceeding, while workshare discounts that are equal to avoided costs cannot be altered in any rate adjustment proceeding until updated avoided costs are filed. *See* Order No. 5337 at 207; Order No. 5763 at 199. Accordingly, the sections below identify the workshare discounts with passthroughs that equaled 100 percent, exceeded 100 percent, or were below 85 percent in FY 2022.

Section 3653(b)(1) of Title 39 requires the Commission to base its determination on the rates and fees "in effect" during FY 2022. The Commission has consistently evaluated workshare discounts' compliance based on the prices in effect at the end of the fiscal year regardless of whether other prices were also in effect at other points during the fiscal year.<sup>46</sup>

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<sup>45</sup> *See, e.g.*, Order No. 6188 at 2 (approving workshare discounts proposed by the Postal Service as consistent with applicable regulations).

<sup>46</sup> *See, e.g.*, FY 2021 ACD at 15-16; FY 2020 ACD at 12; Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 13 (FY 2019 ACD); Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 13 (FY 2018 ACD); Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 15 (FY 2017 ACD); Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 10 (FY 2016 ACD); Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 10 (FY 2015 ACD).

The end-of-year prices in effect in FY 2022 were the prices approved in Docket No. R2022-1. Therefore, consistent with its long-standing practice, the Commission evaluates workshare discounts for compliance using the Docket No. R2022-1 prices in conjunction with the FY 2022 avoided costs.

Several commenters express concerns with the costs used to calculate FY 2022 passthroughs, including the exclusion of RHB normal costs in FY 2022.<sup>47</sup>

NPPC states that “[i]f these costs were attributed at the same general rate as in previous years, approximately \$2.6 billion more costs would be attributed across products than the *FY2022 ACR* reports.” NPPC Comments at 3. According to NPPC, the exclusion of such costs caused the “costs avoided by worksharing,” among others, to be “understated, perhaps by as much as 7 percent.” *Id.*; *see id.* at 6. In NPPC’s view, this resulted in “inflated passthroughs.” *Id.* at 9; *see id.* at 5-10. Thus, NPPC recommends that the Commission not make a finding of noncompliance for discounts that exceed 100 percent by up to 7 percent, nor should it make a finding of compliance for discounts within 5 to 7 percentage points of the 85 percent passthrough minimum in 39 C.F.R. § 3030.284(e). *Id.* at 6; *see* 39 C.F.R. § 3030.284(e).

Other commenters take comparable positions by arguing that the exclusion of RHB normal costs distorts passthroughs, leading to inaccurate workshare discount compliance findings or frustrating efficiency objectives.<sup>48</sup> In addition, NPPC and NAPM note that passthrough data reflecting the inclusion of RHB normal costs should be filed. *See* NAPM Comments at 8; NPPC Comments at 10.

The Commission acknowledges that excluding RHB normal costs from the costs used to calculate passthroughs affects passthrough levels. However, as discussed in Chapter I, the Postal Service properly followed the accepted analytical principles in effect at the time of filing its FY 2022 ACR by excluding RHB normal costs from the costs used to calculate passthroughs. *See* Chapter I, *supra*. Comments that discuss the treatment of these costs fall outside the scope of this proceeding. The Commission’s findings of workshare discount passthrough compliance or non-compliance will adhere to the requirements of 39 U.S.C. § 3622(e) and 39 C.F.R. part 3030, subpart J. *See generally* 39 U.S.C. § 3622(e); 39 C.F.R. pt. 3030, subpt. J.

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<sup>47</sup> *See generally* PostCom Comments at 2-3; N/MA Comments at 6; NAPM Comments at 9-10, 11; NPPC Comments at 2-11; Pitney Bowes Comments at 3-4.

<sup>48</sup> *See, e.g.*, Pitney Bowes Comments at 3; PostCom Comments at 2-3; NAPM Comments at 9; N/MA Comments at 6.

## 2. Workshare Discounts with 100 Percent Passthroughs

To prohibit the Postal Service from making workshare discounts more inefficient in rate adjustment proceedings, 39 C.F.R. § 3030.282(a) requires that workshare discounts that are set equal to their avoided costs and with passthroughs of 100 percent cannot be changed in a rate adjustment proceeding prior to the issuance of the next ACD.

There were three workshare discounts with passthroughs equal to 100 percent in FY 2022, of which one was within First-Class Mail and two were within USPS Marketing Mail. Table II-1 identifies the applicable discount, avoided cost, and passthrough for each of the three workshare discounts equal to their avoided costs.

**Table II-1**  
**FY 2022 Workshare Discounts with 100 Percent Passthroughs**

Type of Worksharing	Discount	Avoided Cost	Passthrough
<b>First-Class Mail Presorted Letters</b>	Presorting (\$/piece)		
Automation AADC Letters	\$0.024	\$0.024	100.0%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Letters</b>	Barcoding (\$/piece)		
Automation Mixed AADC Letters	\$0.006	\$0.006	100.0%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Flats</b>	Presorting (\$/piece)		
Non-automation 3-Digit Flats	\$0.064	\$0.064	100.0%

Note: AADC refers to automated area distribution center.

Although NPPC suggests that the automated area distribution center (AADC) passthrough, like other passthroughs in FY 2022, is inflated because of the exclusion of RHB costs,<sup>49</sup> as the Commission has already discussed, this exclusion is consistent with accepted analytical principles. *See supra* Chapter I.

*In any rate adjustment proceeding before the FY 2023 avoided costs are filed, the Postal Service cannot change the workshare discounts identified in Table II-1 consistent with 39 C.F.R. § 3030.282(a).*

<sup>49</sup> See NPPC Comments at 7.

### 3. Workshare Discounts with Passthroughs that Exceed 100 Percent

In rate adjustment proceedings, a proposed workshare discount that exceeds its avoided cost is only permissible if a listed exception applies. 39 C.F.R. § 3030.283(a). These exceptions include: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent less than the existing workshare discount; and (3) the proposed workshare discount is provided in connection with a subclass of mail, consisting exclusively of mail matter of educational, cultural, scientific, or informational (ECSI) value. *Id.* § 3030.283(b), (c), (e). In order for the ECSI exception to apply, the Postal Service must provide additional supporting information with its rate adjustment filing. *Id.* § 3030.285(c). In addition, a workshare discount that exceeds avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.283 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.283(d). For a workshare discount that exceeds avoided cost, the application for waiver will be granted only if at least one provision appearing in 39 U.S.C. § 3622(e)(2)(A) through (e)(2)(D) or 39 U.S.C. § 3622(e)(3)(A) through (e)(3)(B) applies. *Id.* § 3030.286(f). Such provisions consider, among other things, preventing a loss of volume and reduction in contribution, phasing out discounts over time to mitigate rate shock, and avoiding an impediment to the efficient operation of the Postal Service. The Commission notes that no discounts received a waiver and all discounts complied with the applicable regulations for purposes of Docket No. R2022-1, the only rate adjustment proceeding in FY 2022.

In FY 2022, 21 workshare discounts exceeded the avoided costs of the corresponding worksharing activities. There were 6 within First-Class Mail, 13 within USPS Marketing Mail, and 2 within Package Services. Table II-2 identifies the applicable discount, avoided cost, and passthrough for each of these workshare discounts.

**Table II-2  
FY 2022 Workshare Discounts with Passthroughs that Exceed 100 Percent**

Type of Worksharing	Discount	Avoided Cost	Passthrough
<b>First-Class Mail Single Piece Letters/Cards</b>	Barcoding (\$/piece)		
Qualified Business Reply Mail Letters	\$0.022	\$0.021	104.8%
Qualified Business Reply Mail Cards	\$0.022	\$0.021	104.8%
<b>First-Class Mail Presorted Letters</b>	Barcoding (\$/piece)		
Non-automation Non-machinable Mixed AADC Letters	\$0.166	\$0.137	121.2%
Non-automation Non-machinable 3-Digit Letters	\$0.123	\$0.120	102.5%
Non-automation Non-machinable 5-Digit Letters	\$0.109	\$0.107	101.9%
<b>First-Class Mail Flats</b>	Presorting (\$/piece)		
Automation 5-Digit Flats	\$0.207	\$0.206	100.5%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Letters</b>	Presorting (\$/piece)		
Automation AADC Letters	\$0.021	\$0.020	105.0%
<b>USPS Marketing Mail Nonprofit Machinable &amp; Irregular Parcels</b>	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$1,331	\$875	152.1%
DSCF	\$302	\$177	171.1%
DDU	\$39	\$28	138.0%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Marketing Parcels</b>	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$367	\$244	150.0%
DSCF	\$1,889	\$1,127	167.6%
DDU	\$2,198	\$1,490	147.5%
<b>USPS Marketing Mail Nonprofit Parcels</b>	Presorting (\$/piece)		
NDC Irregular Parcels	\$0.361	\$0.234	154.3%
SCF Irregular Parcels	\$0.832	\$0.511	162.8%
<b>USPS Marketing Mail Nonprofit Parcels</b>	Barcoding (\$/piece)		
Mixed NDC Machinable Barcoded Parcels	\$0.041	\$0.040	102.5%
Mixed NDC Irregular Barcoded Parcels	\$0.041	\$0.040	102.5%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Marketing Parcels</b>	Presorting (\$/piece)		
SCF Marketing Parcels	\$0.370	\$0.244	151.6%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Marketing Parcels</b>	Barcoding (\$/piece)		

Mixed NDC Barcoded Marketing Parcels	\$0.041	\$0.040	102.5%
<b>Package Services Media Mail</b>	Presorting (\$/piece)		
Basic	\$0.230	\$0.196	117.3%
<b>Package Services Library Mail</b>	Presorting (\$/piece)		
Basic	\$0.220	\$0.196	112.2%

Note: AADC refers to automated area distribution center. SCF refers to sectional center facility. DDU refers to destination delivery unit. DNDC refers to destination network distribution center. DSCF refers to destination sectional center facility. NDC refers to network distribution center.

The Public Representative reviews the passthroughs that exceeded 100 percent in FY 2022. *See* PR Comments at 14-22. The Public Representative notes that although the Postal Service explains that cost avoidance models are calibrated to the In-Office Cost System (IOCS)/Cost and Revenue Analysis (CRA) costs, which fluctuate for several reasons, it “does not elaborate further as to the nature of these reasons.” *Id.* at 14. Thus, the Public Representative suggests that the Commission inquire further into the reasons for the IOCS/CRA cost fluctuations. *See id.*

In addition, several commenters raise concerns about the 100.5 percent passthrough for First-Class Mail 5-Digit Automation Flats. Both NAPM and NPPC contend that the passthrough for this workshare discount was excessive because the exclusion of RHB normal costs caused the passthrough of this workshare discount to exceed 100 percent and had those costs been included, it would have resulted in a lower passthrough.<sup>50</sup> PostCom compares the FY 2022 passthrough of 100.5 percent to the FY 2021 passthrough of 84.5 percent and argues that this workshare discount is an example of the Postal Service sending inefficient price signals. PostCom Comments at 4. It further notes that the passthrough for this workshare discount had been set at 100 percent in both of the Postal Service’s most recent rate adjustment proceedings and that changes in cost avoidance resulted in fluctuating passthroughs. *See id.*

Under the Commission’s formula for calculating passthroughs, changes in avoided costs (without proportional changes in workshare discounts) necessarily will affect passthrough levels.<sup>51</sup> Updated avoided costs in the ACR may differ from the avoided costs used to set workshare discounts and calculate associated passthroughs due to the timing of rate adjustment proceedings and associated cost review. The Commission acknowledges the Public Representative’s comments and encourages the Postal Service to explain significant and atypical cost fluctuations affecting passthroughs in subsequent ACRs. Finally, as it

<sup>50</sup> *See* NPPC Comments at 8 (“the [First-Class Mail Automation 5-Digit Flats] discount exceeds 100 percent, although the passthrough surely would be in the mid-90’s if all economic costs were included”); NAPM Comments at 9 (“Using the historical approach for account of the [RHB] normal costs, however, the [First-Class Mail Automation 5-Digit Flats] passthrough surely would be well below 100%, negating the need to reduce the discount”). NAPM mistakenly describes the discount as “Marketing Mail 5-Digit Auto Presort Letters;” however, the Commission notes the comments reflect NAPM’s intention to discuss the First-Class Mail Automation 5-Digit Flats passthrough. *See* NAPM Comments at 9.

<sup>51</sup> *See, e.g.,* Order No. 6188 at 6 n.7 (“The relationship between workshare discounts and avoided costs is usually expressed as a percentage called a passthrough, which is generally calculated by dividing the discount by the cost avoided.”).

relates to comments on the exclusion of RHB normal costs, the Commission reiterates that this exclusion is consistent with accepted analytical principles. *See supra* Chapter I.

*In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-2 into compliance with 39 C.F.R. § 3030.283, which could include aligning workshare discounts with avoided costs or explaining how the workshare discount complies with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, the workshare discounts identified in Table II-2 cannot be increased in any rate adjustment proceeding before the FY 2023 avoided costs are filed consistent with 39 C.F.R. § 3030.282(b).*

#### 4. Workshare Discounts with Passthroughs Under 85 Percent

In rate adjustment proceedings, a proposed workshare discount that is less than its avoided cost is only permissible if a listed exception applies. 39 C.F.R. § 3030.284(a). These exceptions include: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent more than the existing workshare discount; and (3) the percentage passthrough for the proposed workshare discount is at least 85 percent. *Id.* § 3030.284(b), (c), (e). In addition, a workshare discount that is less than its avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.284 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.284(d). For a workshare discount that is less than its avoided cost, the application for waiver will be granted only if setting the workshare discount closer or equal to its avoided cost would impede the efficient operation of the Postal Service or if increasing or eliminating the workshare discount for a non-compensatory product would result in a further increase in the rates paid by mailers not able to take advantage of the discount. *Id.* § 3030.286(g). The Commission notes that no discounts received a waiver and all discounts complied with the applicable regulations for purposes of Docket No. R2022-1, the only rate adjustment proceeding in FY 2022.

Because passthroughs between 85 and 100 percent are permissible, the Commission focuses its compliance analysis on workshare discounts with passthroughs under 85 percent. In FY 2022, 39 workshare discounts had passthroughs that were less than 85 percent. There were 4 within First-Class Mail, 12 within the Periodicals class, 19 within the USPS Marketing Mail class, and 4 within the Package Services class. Table II-3 identifies the applicable discount, avoided cost, and passthrough for each of the 39 workshare discounts with passthroughs under 85 percent in FY 2022.

**Table II-3  
FY 2022 Workshare Discounts with Passthroughs Under 85 Percent**

Type of Worksharing	Discount	Avoided Cost	Passthrough
<b>First-Class Mail Presorted Letters/Cards</b>	Presorting (\$/piece)		
Automation Mixed AADC Letters	\$0.055	\$0.069	79.7%
Automation Mixed AADC Cards	\$0.013	\$0.016	81.3%
<b>First-Class Mail Presorted Letters</b>	Barcoding (\$/piece)		
Non-automation Machinable Mixed AADC Letters	\$0.044	\$0.058	75.9%
<b>First-Class Mail Flats</b>	Presorting (\$/piece)		
Automation ADC Flats	\$0.113	\$0.136	83.1%
<b>Periodicals Outside County Mail</b>	Presorting (\$/piece)		
Machinable Non-automation 3-Digit/SCF Flats	\$0.045	\$0.057	78.9%
High Density Flats	\$0.033	\$0.039	84.6%
Saturation Flats	\$0.022	\$0.042	52.4%
<b>Periodicals Outside County Mail</b>	Barcoding (\$/piece)		
Machinable Automation MADC Flats	\$0.061	\$0.074	82.4%
<b>Periodicals In-County Mail</b>	Presorting (\$/piece)		
3-Digit Presort Flats	\$0.035	\$0.063	55.6%
5-Digit Presort Flats	\$0.053	\$0.162	32.7%
Carrier Route Basic Flats	\$0.130	\$0.264	49.2%
HD Flats	\$0.026	\$0.039	66.7%
Saturation Flats	\$0.020	\$0.042	47.6%
<b>Periodicals In-County Mail</b>	Barcoding (\$/piece)		
Basic Automation Flats	\$0.069	\$0.084	82.1%
3-Digit Automation Flats	\$0.056	\$0.073	76.7%
<b>Periodicals In-County Mail</b>	Dropshipping (\$/piece)		
DDU	\$0.012	\$0.021	57.1%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Letters</b>	Presorting (\$/piece)		
Non-automation AADC Machinable Letters	\$0.016	\$0.030	53.3%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Letters</b>	Dropshipping (\$/piece)		
DNDC Letters	\$0.023	\$0.031	74.2%
<b>USPS Marketing Mail Nonprofit Auto &amp; Nonauto Flats</b>	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$44,279	\$55,690	79.5%

<b>USPS Marketing Mail Commercial &amp; Nonprofit Basic Carrier Route Flats</b>	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$23,435	\$38,510	60.9%
DSCF	\$309,733	\$432,022	71.7%
<b>USPS Marketing Mail Commercial &amp; Nonprofit HD/HD+/Saturation Flats</b>	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$4,481	\$5,708	78.5%
<b>USPS Marketing Mail Nonprofit Parcels</b>	Presorting (\$/piece)		
NDC Machinable Parcels	\$0.563	\$0.719	78.3%
5-Digit Machinable Parcels	\$0.783	\$0.929	84.3%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Carrier Route Letters</b>	Dropshipping (\$/piece)		
DNDC Letters	\$0.023	\$0.031	74.2%
<b>USPS Marketing Mail Commercial &amp; Nonprofit Carrier Route Flats</b>	Presorting (\$/piece)		
Origin Flats on Delivery Sort Containers	\$0.022	\$0.027	81.5%
DNDC Flats on Delivery Sort Containers	\$0.022	\$0.027	81.5%
DSCF Flats on Delivery Sort Containers	\$0.022	\$0.027	81.5%
DDU Flats on Delivery Sort Containers	\$0.022	\$0.027	81.5%
<b>USPS Marketing Mail Commercial &amp; Nonprofit HD/Saturation Letters</b>	Presorting (\$/piece)		
HD Letters	\$0.130	\$0.741	17.5%
<b>USPS Marketing Mail Commercial &amp; Nonprofit HD/Saturation Letters</b>	Dropshipping (\$/piece)		
DNDC Letters	\$0.023	\$0.031	74.2%
<b>USPS Marketing Mail Commercial &amp; Nonprofit HD/Saturation Flats</b>	Presorting (\$/piece)		
HD Flats	\$0.070	\$0.091	76.9%
Origin Flats on Delivery Sort Containers (HD)	\$0.012	\$0.027	44.4%
Origin Flats on Delivery Sort Containers (HD+)	\$0.010	\$0.027	37.0%
Origin Flats on Delivery Sort Containers (Saturation)	\$0.007	\$0.027	25.9%
<b>Package Services BPM Flats</b>	Dropshipping (\$/piece)		
Basic, Carrier Route DSCF Flats	\$0.607	\$0.765	79.3%
Basic, Carrier Route DDU Flats	\$0.818	\$1.165	70.2%
<b>Package Services BPM Parcels/IPPs</b>	Dropshipping (\$/piece)		
Basic, Carrier Route DSCF Parcels/IPPs	\$0.598	\$0.765	78.2%
Basic, Carrier Route DDU Parcels/IPPs	\$0.815	\$1.165	70.0%

Note: AADC refers to automated area distribution center. ADC refers to area distribution center. SCF refers to sectional center facility. MADC refers to mixed area distribution center. DDU refers to destination delivery unit. DNDC refers to destination network distribution center. DSCF refers to destination sectional center facility. HD refers to High Density. HD+ refers to High Density Plus. NDC refers to network distribution center. BPM refers to Bound Printed Matter. IPPs refer to irregular parcels and pieces.

As it relates to low workshare discount passthroughs, several commenters contend that the Postal Service's workshare discount pricing is inefficient.<sup>52</sup>

PostCom states that it is concerned, based on "the large number of passthroughs that are less than the prescribed 85 percent floor," that the Postal Service is attempting to "maintain a minimal level of compliance." PostCom Comments at 3. In PostCom's view, such an approach is "inconsistent with the spirit of the Commission's regulations" and "may continue to add volatility in pricing." *Id.* According to PostCom, "the Postal Service continues to inappropriately favor passthroughs well below 100 percent of avoided costs." *Id.* at 5.

Pitney Bowes Inc. (Pitney Bowes) states that "progress has been made" in "mov[ing] workshare discounts over time closer to 100 percent of the corresponding avoided costs" but argues that the Commission's workshare discount rules "are too permissive and must be further refined and strengthened." Pitney Bowes Comments at 1. Thus, Pitney Bowes urges the Commission to require workshare discount rates that "promote pricing and operational efficiency, for example, narrowing the 'safe harbor,'" if the Postal Service does not use its authority to achieve such efficiency. *Id.* at 2.

NAPM urges "the [workshare] discounts to be realigned to be as close to 100% as possible rather than seeking waivers from doing so." NAPM Comments at 12. Similarly, NPPC suggests that "allowing the Postal Service to set the minimum workshare discount passthrough at 85 percent of avoided costs ensures that far too many discounts will, in fact, long be set at inefficient levels[.]" NPPC Comments at 1. In N/MA's view, "[t]he Postal Service should be required to move more urgently to set discounts at economically efficient levels." N/MA Comments at 6.

The Postal Service disagrees with the commenters' arguments that workshare discount pricing is inefficient. Postal Service Reply Comments at 3-7. The Postal Service contends that it is not required "to raise the workshare passthroughs over time to 100 percent" but asserts that it is doing so nevertheless. *See id.* at 3-4. For example, the Postal Service states that "the number of passthroughs below 85 percent decreased substantially from the FY 2021 ACR to the FY 2022 ACR" and that "the number of passthroughs below 85 percent decreased percentagewise in the two most recent price cases...." *Id.* at 4, 5. Thus, the Postal Service argues that "[t]here is no indication of a need for stricter passthrough requirements such as a 95 percent floor" and that "the proper proceeding to consider any changed requirements regarding workshare discounts is in the 5-year review of the pricing system." *Id.* at 7.

In addition, several commenters raise concerns about specific workshare discounts set below avoided costs. N/MA raises concerns about Periodicals In-County Mail, Carrier Route Basic Flats, because of the level of the passthrough and the proportion of Periodicals In-

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<sup>52</sup> N/MA Comments at 4-6; NPPC Comments at 1; Pitney Bowes Comments at 1-2; PostCom Comments at 3-5; see NAPM Comments at 10-12.

County Mail that Carrier Route Basic Flats comprises.<sup>53</sup> N/MA contends that this pricing is inefficient. *See id.* Further, N/MA states that four Outside County passthroughs “are below the 85 percent safe harbor” and that more passthroughs would be below the 85 percent threshold if RHB normal costs were included in the costs used to calculate the passthroughs. *Id.* at 6.

Multiple commenters express specific concern over the 85.7 percent passthrough level of First-Class Mail Automation 5-Digit Letters.<sup>54</sup> Pitney Bowes argues that this passthrough “remains pegged at a level that minimizes permissible incentives to reduce costs and increase efficiency.” Pitney Bowes Comments at 2. According to NAPM, the Postal Service “has consistently failed to move the First-Class Mail Automation Presort Letters 5-Digit passthrough closer to 100 percent...” NAPM Comments at 12. Pitney Bowes, NAPM, and NPPC argue that if RHB normal costs were included in the costs used to calculate passthroughs, this passthrough would fall below the 85 percent passthrough threshold and would be required to be increased. *See* Pitney Bowes Comments at 3; NAPM Comments at 9; NPPC Comments at 7.

As it relates to commenters’ concerns about pricing efficiency, the Commission acknowledged in Docket No. RM2017-3 that the 85 percent passthrough floor prescribed in 39 C.F.R. § 3030.284(e) was less restrictive than many other workshare discount requirements, but explained that the exception “strikes an appropriate balance between improving pricing efficiency and providing sufficient pricing flexibility...”<sup>55</sup> The Commission also noted that if over time, the Postal Service was not taking steps to move workshare discounts toward 100 percent passthroughs, the Commission would reconsider the rules on workshare discounts as part of its plan to review the modified ratemaking system in 5 years. *Id.* at 212-13, 267.

The Commission maintained this approach in Docket Nos. R2021-2, R2022-1, and R2023-1<sup>56</sup> but added that “should the Postal Service use the exception in 39 C.F.R. § 3030.284(e) to not move workshare discounts closer to 100 percent on a consistent basis, the Commission

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<sup>53</sup> N/MA Comments at 5 (stating that although “Basic Carrier Route comprised 65 percent of Within County mail in FY2022,” “the discount for Within County Basic Carrier Route passes through only...49.2 percent (measured by the ACR costs, which N/MA believes are understated)” (emphasis in original; footnote omitted).

<sup>54</sup> *See* Pitney Bowes Comments at 2, 3; NAPM Comments at 9, 10-11, 12; NPPC Comments at 7. In this regard, NAPM discusses First-Class Mail Automation 5-Digit Cards in conjunction with First-Class Mail Automation 5-Digit Letters. *See* NAPM Comments at 10-11.

<sup>55</sup> Order No. 5763 at 212. The Commission determined that a balanced approach was necessary due to the newness of the regulatory requirements related to workshare discounts less than their avoided costs and because such discounts are less detrimental to the Postal Service. *See id.*

<sup>56</sup> Docket No. R2021-2, 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, at 61 (Order No. 5937) (“[I]t will likely take multiple price adjustments before it would be reasonable to assess if 39 C.F.R. part 3030, subpart J as a whole is having its intended effect.”); Order No. 6188 at 55 (declining to open a rulemaking proceeding to “consider requiring 100 percent passthroughs for non-compensatory products’ workshare discounts” and stating that considering revisions to 39 C.F.R. part 3030 is “premature at this time”); Docket No. R2023-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 28, 2022, at 31 (Order No. 6341) (“[T]he Commission declines to open a rulemaking proceeding to review 39 C.F.R. part 3030, subpart J at this time.”).

may find it appropriate to regulate workshare discounts set below avoided costs more stringently when it undertakes its [5-year] review.” Order No. 5937 at 61.

The Commission maintains that approach here. This is the second compliance determination under the new regulations. The Commission will continue to monitor this issue and is open to considering adjustments to the regulations during its planned 5-year review should experience show adjustments are necessary.

The Commission notes that, with regard to all workshare discounts set below their avoided costs, the Postal Service must comply with 39 C.F.R. § 3030.284 if a waiver has not been granted and may not decrease such discounts in the next rate adjustment proceeding. 39 C.F.R. §§ 3030.282(c), 3030.284. The Commission encourages the Postal Service to work with mailers to address specific concerns falling outside the scope of the regulations.

Finally, as it relates to comments on the exclusion of RHB normal costs, the Commission reiterates this exclusion is consistent with accepted analytical principles. *See supra* Chapter I.

*In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-3 into compliance with 39 C.F.R. § 3030.284, which could include aligning workshare discounts with avoided costs or explaining how the workshare discount complies with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, all workshare discounts set below their FY 2022 avoided costs, including those identified in Table II-3, cannot be decreased in any rate adjustment proceeding before the FY 2023 avoided costs are filed consistent with 39 C.F.R. § 3030.282(c).*

# CHAPTER III. MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

## A. Introduction

This chapter discusses other rate and fee compliance issues (not discussed in Chapter II), including Commission determinations related to non-compensatory classes and products.

In Order No. 5763, the Commission adopted new rules for non-compensatory classes and products.<sup>57</sup> Specifically, 39 C.F.R. part 3030, subpart G permits an additional 2 percentage points of rate authority for any class of mail where the attributable cost for that class exceeds the revenue from that class. 39 C.F.R. § 3030.222(a). The use of this additional rate authority is optional and may be implemented at the Postal Service's discretion whenever it files a rate adjustment proceeding involving the non-compensatory class. *Id.*

In addition, the regulations have requirements specific to products classified as non-compensatory within classes that are compensatory overall. For those products, the rates must increase by a minimum of 2 percentage points above the average percentage increase for that class. *Id.* § 3030.221.<sup>58</sup> The regulations also provide that rates may not be reduced for any non-compensatory product. *Id.* § 3030.127(b). The Postal Service is required to comply with directives issued by the Commission pursuant to 39 C.F.R. § 3030.221 whenever it files a rate adjustment proceeding affecting a non-compensatory product.

The Commission finds that one class was non-compensatory in FY 2022: Periodicals. Additionally, the Commission identifies the following non-compensatory products in compensatory classes: (1) USPS Marketing Mail Flats, (2) USPS Marketing Mail Carrier Route, (3) USPS Marketing Mail Parcels, (4) Media Mail/Library Mail, and (5) Money Orders.<sup>59</sup> The Commission notes that one class was fully compensatory in FY 2022:

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<sup>57</sup> See Order No. 5763 at 181-97. Whether a class or product is non-compensatory is determined by the Commission. 39 C.F.R. § 3030.220.

<sup>58</sup> This requirement does not apply to a non-compensatory product for which the Commission has determined that the Postal Service lacks independent authority to set rates (such as rates set by treaty obligation). *Id.*

<sup>59</sup> The Commission notes that an additional Market Dominant nonpostal product, Philatelic Sales, was initially reported as being non-compensatory. FY 2022 ACR at 102. However, in response to CHIRs, the Postal Service explained that this was due to an error in the calculation of the product's cost coverage, which involved the use of an incorrect Service-Wide Benefit factor in the product's cost model. Response to CHIR No. 4, question 12. The Postal Service provided updated calculations demonstrating that Philatelic Sales did, in fact, cover its attributable costs in FY 2022 with a cost coverage of 124.85 percent. *Id.*; Response to CHIR No. 7, question 21. The Postal Service states that in future ACR filings it intends to separately identify the Service-Wide Benefit factor in the source referred to in the cost model to prevent such an error from re-occurring. *Id.* question 21.b. The Commission agrees that this would be a helpful improvement and encourages the Postal Service to do so in future ACR filings.

First-Class Mail. However, collectively, the Postal Service lost \$1.32 billion in FY 2022 from non-compensatory classes and products.<sup>60</sup>

In alignment with the new regulations of 39 C.F.R. part 3030, subpart G, this chapter begins with an analysis of the non-compensatory class, followed by an analysis of each non-compensatory product in compensatory classes, organized by class. The Commission also discusses the fully compensatory class.

In addition, this chapter includes a discussion of other rate and fee compliance issues raised by commenters.

## B. Non-Compensatory Class

### 1. Periodicals

#### a. Introduction

The Periodicals class comprises two products, In-County<sup>61</sup> and Outside County. Revenue for both products was insufficient to cover their attributable cost in FY 2022. However, the cost coverage for the class increased from 53.2 percent in FY 2021 to 61.1 percent in FY 2022. In this section, the Commission discusses the FY 2022 financial results for Periodicals in more detail.

#### b. FY 2022 Results

As illustrated in Table III-1, the cost coverage for Periodicals increased in FY 2022, up to 61.1 percent in FY 2022 from 53.2 percent in FY 2021, resulting in a negative contribution of nearly \$612 million in FY 2022.<sup>62</sup>

**Table III-1**  
**Periodicals Cost Coverage, FY 2018–FY 2022**

Fiscal Year	Periodicals Class	In-County	Outside County
FY 2018	67.5%	67.9%	67.5%
FY 2019	64.0%	58.4%	64.3%
FY 2020	56.9%	51.1%	57.3%
FY 2021	53.2%	45.0%	53.9%
FY 2022	61.1%	49.1%	61.9%

Source: Library Reference PRC-LR-ACR2022-5.

<sup>60</sup> As noted in Chapter I, the Postal Service did not incur, and thus did not attribute, RHB normal costs consistent with the direction set forth by the Commission in Order No. 6363 and the current accepted analytical principles in effect at the time of filing. *See* Chapter I, *supra*. The Commission acknowledged that the absence of attributable RHB normal costs due to the PSRA impacted product-level cost coverage. *See id.*

<sup>61</sup> The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

<sup>62</sup> *See* Library Reference PRC-LR-ACR2022-5, Excel file “FY 2022 CH3 Periodicals.xlsx.”

The Postal Service notes that Periodicals cost coverage increased because revenue-per-piece increased while cost-per-piece decreased. FY 2022 ACR at 40-41. The Postal Service also notes a more pronounced decline in Periodicals volume in recent years due to increased substitution from the Internet, mobile devices, and e-readers.<sup>63</sup> The Postal Service observes that, from FY 2021 to FY 2022, 3.8 percent of publications ceased mailing. *Id.*

c. Previous ACD Directives

The Periodicals class has consistently failed to cover its attributable costs, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.<sup>64</sup> In the FY 2021 ACD, the Commission also made several recommendations to the Postal Service to develop specific plans and set goals to improve FY 2022 cost and service issues for flat-shaped mailpieces, which includes both In-County and Outside County Periodicals. FY 2021 ACD at 228-77.

d. Comments on Periodicals

N/MA states that the Periodicals class continues to see high costs and price increases that impact Periodicals volume. N/MA Comments at 2-4, 4-6. It explains that although the Postal Service reports that the unit costs of Periodicals declined in FY 2022, the reduction is “completely unrelated to any improvements in actual Periodicals operations” because the FY 2022 costs exclude RHB normal costs that were embedded in the FY 2021 costs. *Id.* at 1-2. N/MA asks the Commission to determine whether the reported Periodicals cost declined due to actual operational improvement or due to accounting of retiree liabilities. *Id.* at 2.

The American Catalog Mailers Association (ACMA) states that city carrier street times associated with flats categories, including Periodicals, appear excessive relative to letter-shaped mail. ACMA Comments at 15-16.

The Public Representative comments that the cost coverage shortfall of Periodicals is a longstanding issue but notes its improvement in FY 2022. PR Comments at 10. He urges the Postal Service to continue utilizing the rate authority available to non-compensatory classes to improve the cost coverage of the Periodicals class. *Id.* at 11.

e. Commission Analysis

Since FY 2018, Periodicals volume declined by 31.9 percent, total revenue declined by 24.9 percent, total attributable cost declined by 16.9 percent, and in that time, the Periodicals class has provided cumulative negative contribution of \$3.5 billion.<sup>65</sup> To better understand

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<sup>63</sup> See Library Reference USPS-FY22-45, December 29, 2022, folder “Rule 3050.50 Flats,” folder “Paragraph (b) -- Financial Report,” PDF file “Part B Narratives-FY 22 Rule 3050.50.pdf,” at 9.

<sup>64</sup> See, e.g., FY 2017 ACD at 50; FY 2018 ACD at 46; FY 2019 ACD at 25; Docket No. ACR2020, *Annual Compliance Determination*, March 29, 2021, at 20 (FY 2020 ACD); FY 2021 ACD at 27.

<sup>65</sup> See Library Reference PRC-LR-ACR2022-5, Excel file “FY 2022 CH3 Periodicals.xlsx.”

the contribution shortfall of Periodicals, the Commission analyzes Periodicals revenue and cost.

### (1) Periodicals Revenue

In an effort to improve Periodicals revenue, and in line with prior encouragement from the Commission to improve cost coverage, the Postal Service has generally implemented price increases that have maximized the Postal Service's rate authority for both Periodicals products since rules governing the new ratemaking system went into effect in January 2021.<sup>66</sup> Prior to that, however, the price cap which is based on the consumer price index for all urban consumers (CPI-U) limited the Postal Service's ability to raise prices. The recent addition of density, retirement, and non-compensatory rate authorities has allowed the Postal Service more pricing flexibility within the Periodicals class. In Docket No. R2021-2, the Postal Service raised Periodicals prices by 8.771 percent on average. Order No. 5937 at 106-07. In Docket No. R2022-1, the Postal Service raised Periodicals prices by 8.540 percent on average. Order No. 6188 at 80. The magnitude of these price increases is significant compared to previous rate increases limited by the CPI-U price cap.<sup>67</sup>

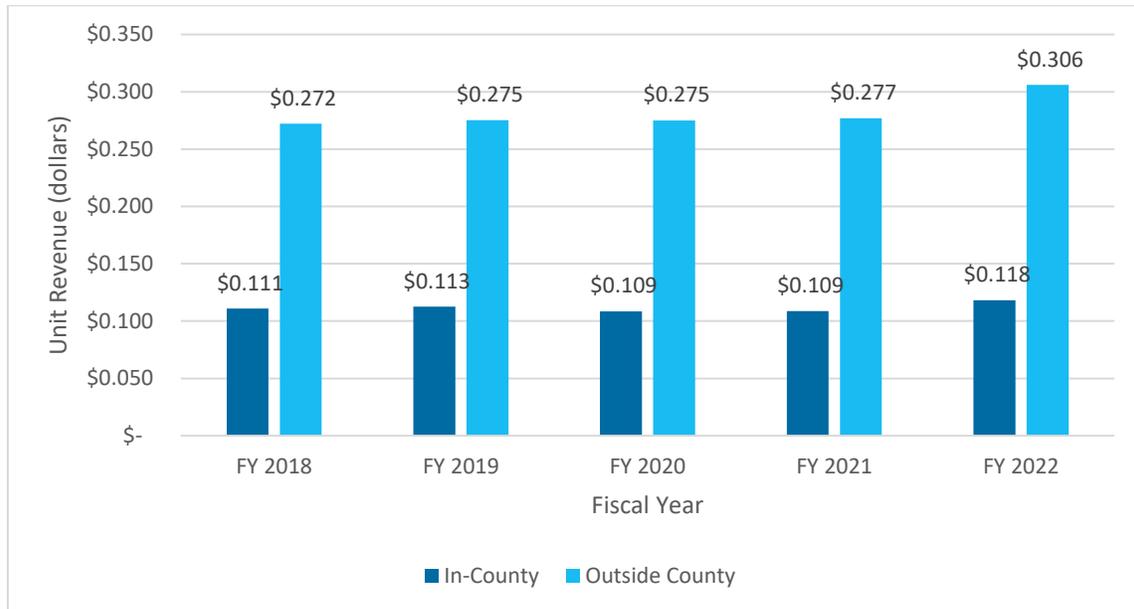
As such, FY 2022 Periodicals unit revenue increased 10 percent after 4 years of flat unit revenue growth. As detailed in Figure III-1, from FY 2018 to FY 2021, Periodicals unit revenue remained flat. Unit revenue for In-County was \$0.109 in FY 2021 and \$0.118 in FY 2022, an increase of 8.7 percent. Unit revenue for Outside County was \$0.277 in FY 2021 and \$0.306 in FY 2022, an increase of 10.5 percent.

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<sup>66</sup> See 85 Fed. Reg. 81,124 (Dec. 15, 2020).

<sup>67</sup> For example, in Docket Nos. R2021-1 and R2020-1, the average increase for Periodicals was 1.456 percent and 1.900 percent, respectively. See Docket No. R2021-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 18, 2020, at 30-31 (Order No. 5757); Docket No. R2020-1, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2019, at 29-30 (Order No. 5321).

**Figure III-1  
Periodicals Unit Revenue, FY 2018–FY 2022**



Source: Library Reference PRC-LR-ACR2022-5.

Changes in the characteristics of mailpieces, such as weight and advertising content, have dampened the impact of the rate increases. For Outside County, which makes up 87.2 percent of Periodicals volume, pricing for the product is related to weight and percent of advertising content. Simply put, the Postal Service earns more revenue from mailpieces that are heavier and contain more advertising, but both of the elements are decreasing. As detailed in Table III-2, average weight for Outside County decreased by 9.8 percent and average advertising content decreased by 5.6 percentage points over the last 5 fiscal years. These factors directly limited the revenue that the Postal Service earned from the Outside County product, which makes the unit revenue increase experienced by the product in FY 2022 more noteworthy.

**Table III-2  
Periodicals Outside County Revenue Elements, FY 2018–FY 2022**

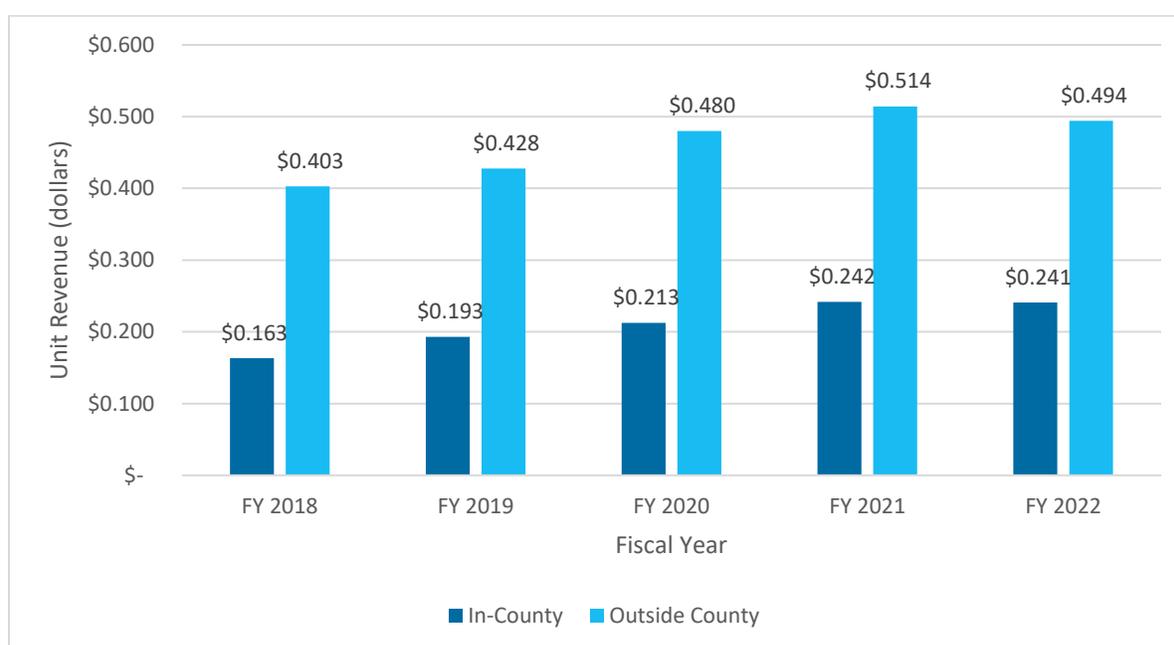
Fiscal Year	Weight (Ounces)	Advertising Content
FY 2018	5.75	35.8%
FY 2019	5.59	34.2%
FY 2020	5.32	31.9%
FY 2021	5.26	30.7%
FY 2022	5.18	30.2%

Source: Library Reference PRC-LR-ACR2022-5.

## (2) Periodicals Attributable Cost

Because Periodicals is comprised of flat-shaped mail, the operational changes and initiatives designed to reduce flat-shaped mail costs described by the Postal Service reporting on which is required by 39 C.F.R. § 3050.50, impact Periodicals. *See* Library Reference USPS-FY22-45. As the Commission has previously discussed, the Postal Service has been unable to quantify the expected impact of those operational initiatives and changes.<sup>68</sup>

**Figure III-2**  
**Periodicals Unit Attributable Cost, FY 2018–FY 2022**



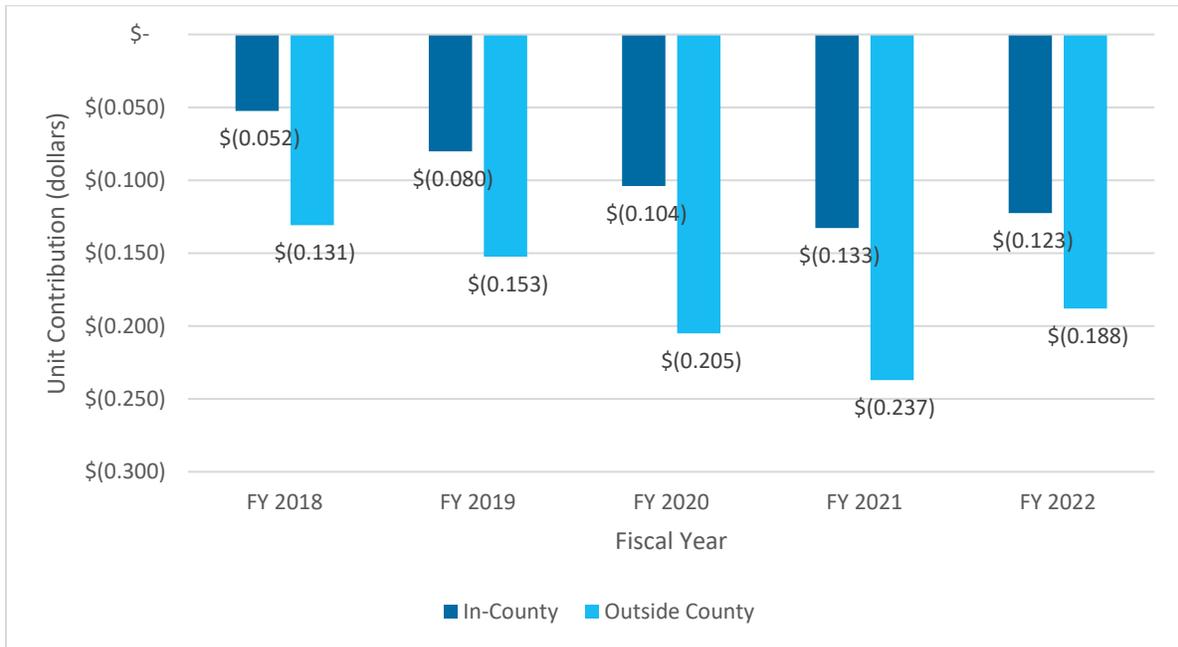
Source: Library Reference PRC-LR-ACR2022-5.

As detailed in Figure III-2, from FY 2018 through FY 2022, Periodicals unit attributable cost increased overall. Unit attributable cost for In-County was \$0.163 in FY 2018 and \$0.241 in FY 2022, an increase of 47.6 percent. Unit attributable cost for Outside County was \$0.403 in FY 2018 and \$0.494 in FY 2022, an increase of 22.7 percent. However, from FY 2021 to FY 2022, Periodicals unit attributable cost decreased; In-County decreased by 0.3 percent and Outside County decreased by 4.0 percent.

Figure III-3 illustrates that the wide gap between unit revenue and unit attributable cost results in low unit contribution and a total negative contribution for Periodicals.

<sup>68</sup> *See, e.g.*, FY 2021 ACD at 31. As noted in Chapter I, the Commission analyzes inefficiencies in flats operations and the impact of these initiatives on the cost of Periodicals in its forthcoming Flats Study. *See* Chapter I, *supra*.

**Figure III-3  
Periodicals Unit Contribution, FY 2018–FY 2022**

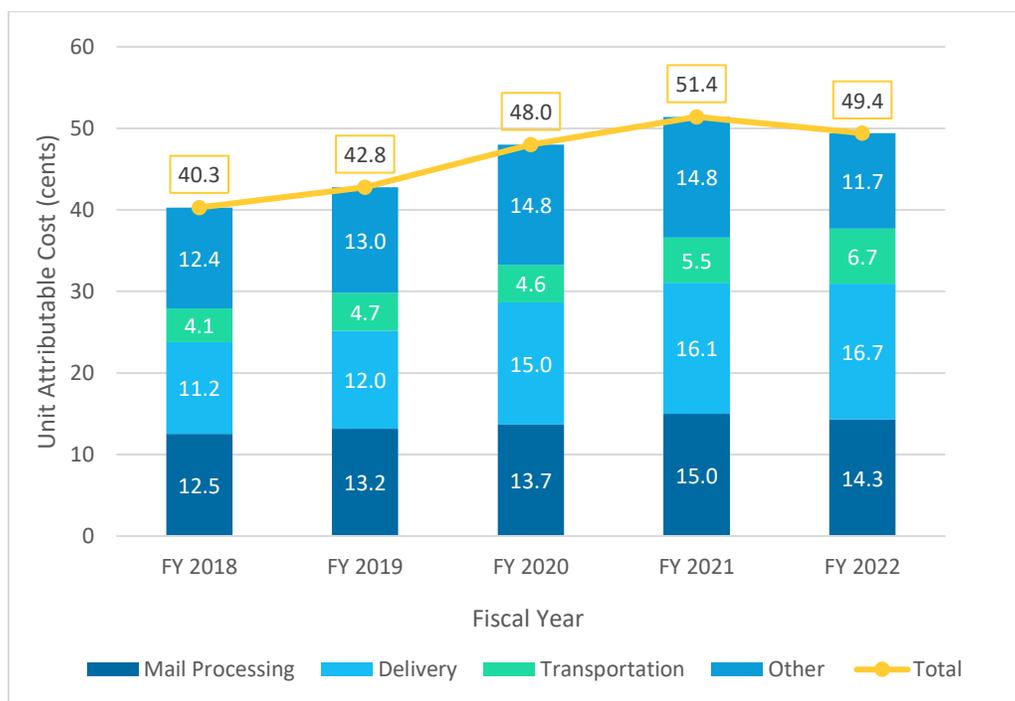


Source: Library Reference PRC-LR-ACR2022-5.

In FY 2022, Outside County constituted 87.2 percent of all Periodicals volume and 93.3 percent of total Periodicals attributable cost.<sup>69</sup> Figure III-4 shows that Outside County unit attributable cost increased by 9.13 cents from FY 2018 through FY 2022. However, from FY 2021 to FY 2022, Outside County unit attributable cost decreased by 1.99 cents.

<sup>69</sup> See Library Reference PRC-LR-ACR2022-5, Excel file "FY 2022 CH3 Periodicals.xlsx."

**Figure III-4**  
**Periodicals Outside County Unit Attributable Cost, FY 2018–FY 2022**



Source: Library Reference PRC-LR-ACR2022-5.

In FY 2022, the unit attributable cost increased for delivery and transportation, while the unit attributable cost decreased for mail processing and other costs.<sup>70</sup> The Postal Service reports that mail processing costs decreased due in part to a decrease in manual processing and a reduction of leakage from Flats Sequencing System (FSS) operations. Response to CHIR No. 10, question 22. The Postal Service expected Periodicals domestic air cost to decrease due to new service standards that were implemented on October 1, 2021. From FY 2021 to FY 2022, Outside County domestic air costs decreased by 8.1 percent and highway costs increased by 14.2 percent.<sup>71</sup> Taken together, Outside County total transportation costs increased by 11.7 percent and unit transportation costs increased by 21.63 percent.

In addition, as noted by commenters and acknowledged by the Commission, the fact that the Postal Service did not incur costs related to RHB did impact product costs since there were no RHB-related costs to attribute to any products, including Periodicals. As discussed in Chapter I, the Postal Service appropriately excluded these costs in accordance with accepted analytical principles. *See* Chapter I, *supra*.

<sup>70</sup> In Figure III-4, Mail Processing includes cost segment 3; Delivery includes cost segments 6, 7, and 10; Transportation includes cost segment 14; and Other, such as RHB, management, building space, and supply related costs, includes cost segments 1, 2, 8, 11, 12, 13, 15, 16, 17, 18, 19, and 20. The figure does not account for piggyback factors.

<sup>71</sup> *See* Library Reference PRC-LR-ACR2022-5, Excel file "FY 2022 CH3 Periodicals.xlsx."

As Table III-3 illustrates, mailer presortation of Outside County Carrier Route has decreased since FY 2018. In FY 2018, mailer presortation of Outside County Carrier Route was at 61.2 percent and had decreased to 57.6 percent by FY 2022. In addition, mailer dropship of Outside County decreased from 74.0 percent in FY 2018 to 70.0 percent in FY 2022.

**Table III-3**  
**Periodicals Outside County Mail Mix, FY 2018–FY 2022**

Fiscal Year	Presortation - Carrier Route Basic	Dropship - All Levels
FY 2018	61.2%	74.0%
FY 2019	59.9%	72.4%
FY 2020	58.9%	71.9%
FY 2021	58.7%	72.8%
FY 2022	57.6%	70.0%

Source: Library Reference PRC-LR-ACR2022-5.

The Commission notes that when the mail mix shifts away from presortation and dropship, revenue can increase because rates are higher. However, because the Postal Service must process and transport those pieces more often, costs also increase. In future rate cases, the Postal Service should consider mail mix changes when pricing Periodicals in order to maximize revenue and minimize costs.

*The Commission reiterates its longstanding findings that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, including Periodicals costs, these costs have risen over time. Although the Commission analyzes inefficiencies in flats operations and the impact of these initiatives on the cost of Periodicals in its forthcoming Flats Study, the Postal Service should also monitor its costs and develop a plan to further reduce Periodicals costs. Furthermore, the Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its revenue by strategically pricing Periodicals.*

## **C. Non-Compensatory Products in Compensatory Classes**

### **1. USPS Marketing Mail**

As a class, USPS Marketing Mail covered its attributable costs in FY 2022 and had an overall cost coverage of 143.5 percent. Table III-4 provides the cost coverage for each USPS Marketing Mail product as well as the overall class for the last 5 fiscal years. As Table III-4 shows, three products within the class did not cover costs in FY 2022: (1) USPS Marketing Mail Flats; (2) USPS Marketing Mail Carrier Route; and (3) USPS Marketing Mail Parcels.

**Table III-4**  
**USPS Marketing Mail Cost Coverage, FY 2018–FY 2022**

Fiscal Year	USPS Marketing Mail Overall	Carrier Route	Letters	Flats	Parcels	HD/Sat Flats	EDDM	HD/Sat Letters
2018	142.4%	108.6%	195.0%	68.7%	58.5%	145.2%	267.6%	206.6%
2019	139.1%	99.9%	190.0%	67.7%	56.9%	138.2%	259.5%	204.7%
2020	129.5%	96.2%	171.4%	63.3%	76.5%	129.9%	257.7%	188.6%
2021	130.5%	94.6%	174.7%	60.3%	73.1%	125.4%	248.3%	182.4%
2022	143.5%	99.4%	191.2%	66.7%	87.5%	132.5%	263.9%	198.8%

Source: Library Reference PRC-LR-ACR2022-4.

In this chapter, the Commission discusses the FY 2022 financial results for USPS Marketing Mail non-compensatory products in more detail.

a. USPS Marketing Mail Flats

(1) Introduction

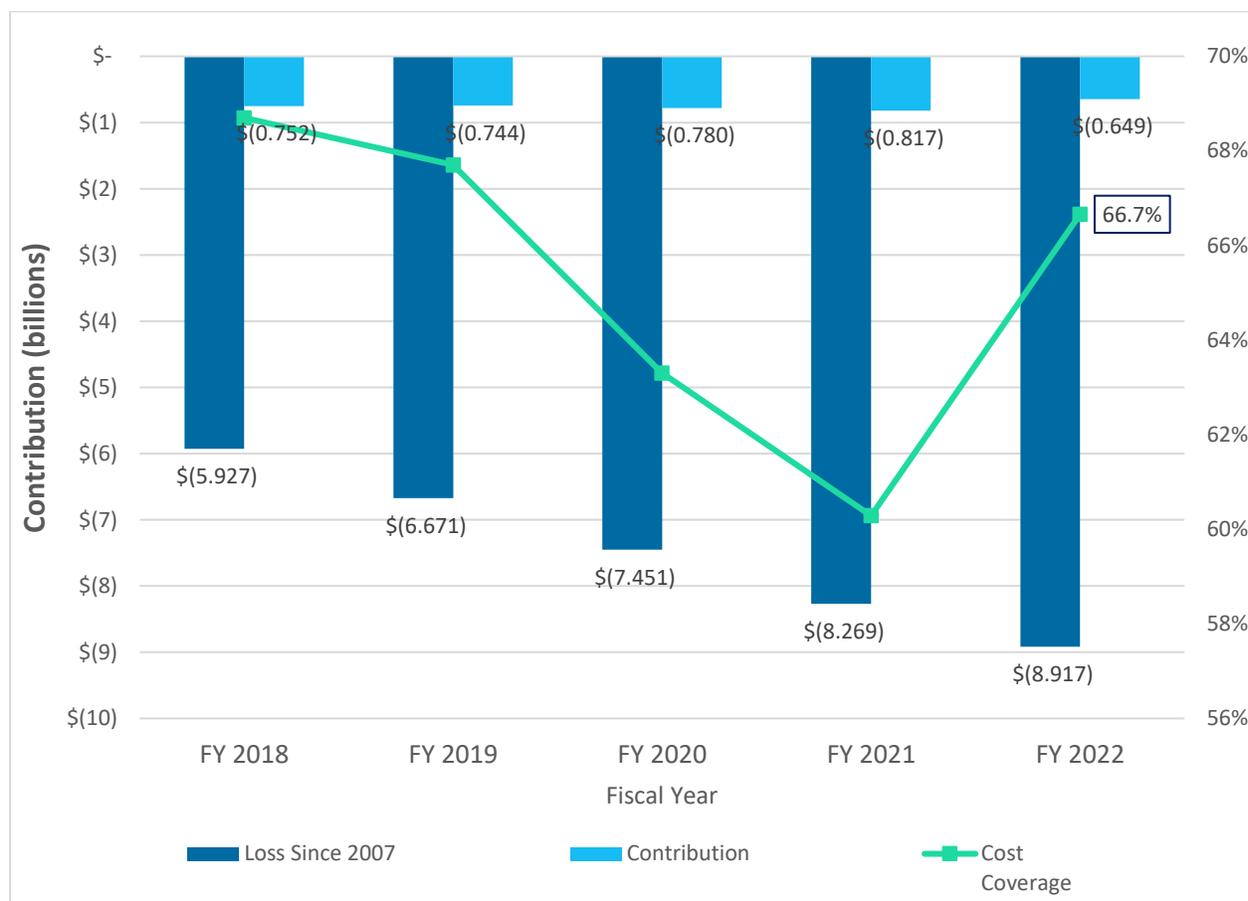
In FY 2022, USPS Marketing Mail Flats continued to experience deficient cost coverage, although cost coverage improved from 60.3 percent in FY 2021 to 66.7 percent in FY 2022.

(2) FY 2022 Results

In FY 2022, USPS Marketing Mail Flats had a cost coverage of 66.7 percent, 6.4 percentage points higher than in the prior year.<sup>72</sup> As shown in Figure III-5, cost coverage for USPS Marketing Mail Flats declined 8.4 percentage points from FY 2018 to FY 2021, before improving 6.4 percentage points in FY 2022. Library Reference PRC-LR-ACR2022-4.

<sup>72</sup> Library Reference PRC-LR-ACR2022-4. The Commission's cost coverage calculation differs from the Postal Service's calculation because, unlike the Postal Service, the Commission includes fees in the revenue for each product. See Library Reference PRC-LR-ACR2022-1.

**Figure III-5  
USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2018–FY 2022<sup>73</sup>**



Source: Library Reference PRC-LR-ACR2022-4.

Unit revenue grew by 11.4 percent in FY 2022, an improvement over the 2.9 percent unit revenue growth seen in FY 2021. Library Reference PRC-LR-ACR2022-4. The Postal Service notes that it implemented price increases for USPS Marketing Mail Flats that were at least 2 percentage points higher than the class average for USPS Marketing Mail in each of the last four price changes to go into effect, including the 8.543 percent rate increase approved in Docket No. R2022-1. FY 2022 ACR at 21; Order No. 6188 at 68. The Postal Service also notes that after years of steady growth, the proportion of Nonprofit Flats, which in prior years has had an offsetting effect on the revenue realized due to price increases, remained essentially flat in FY 2022 at 32.0 percent. FY 2022 ACR at 21.

In addition, reported unit cost increased by 0.7 percent. *Id.* In responses to CHIRs, the Postal Service attributed this to increases in transportation costs, particularly highway transportation costs, which it states was likely due to an increase in origin-entered volume

<sup>73</sup> Complete USPS Marketing Mail Flats data for FY 2008 to FY 2022 can be found in Library Reference PRC-LR-ACR2022-4.

in FY 2022. The Postal Service explains that this increase was mitigated by decreases in unit delivery costs, and, to a lesser extent, in postmasters' unit costs. Response to CHIR No. 7, question 18.a.

As a result of the improvement in unit revenue and the minor increase in unit cost, contribution improved by \$168.5 million in FY 2022, as shown in Figure 5. Despite this improvement, the cumulative contribution loss from USPS Marketing Mail Flats between FY 2008 and FY 2022 grew to a negative \$8.9 billion, as shown in Figure 5.

USPS Marketing Mail Flats volume continued to decline in FY 2022, decreasing by 175 million pieces, or 6.1 percent, compared to FY 2021. FY 2022 ACR at 38, Table 12. This rate of decline was slower than in recent years, with the product's volume having decreased 10.3 percent in FY 2021 and 16.2 percent in FY 2020. *Id.* The Postal Service explains that most of the volume change with respect to flat-shaped USPS Marketing Mail, including USPS Marketing Mail Flats, was the result of FY 2022 not being part of a national election cycle. FY 2021, by comparison, included October 2020, which preceded a general election in November 2020. Response to CHIR No. 7, question 15.a.

### (3) Previous ACD Directives

Given USPS Marketing Mail Flats history of not covering its costs, the Commission has issued specific directives related to the cost coverage of USPS Marketing Mail Flats since the FY 2010 ACD:<sup>74</sup>

- FY 2010 ACD directive: The Commission found that USPS Marketing Mail Flats prices did not comply with 39 U.S.C. § 101(d)<sup>75</sup> and directed the Postal Service to increase the product's cost coverage through a combination of above class-average price adjustments and cost reductions. In addition, the Commission directed the Postal Service to provide a description and estimation of the financial effect of operational changes designed to reduce USPS Marketing Mail Flats costs in the previous fiscal year, a description and estimation of the financial effect of all costing methodology or measurement improvements made in the previous fiscal year, a statement summarizing the historical and current subsidy for the USPS Marketing Mail Flats product, and the estimated timeline for phasing out this subsidy in each subsequent ACR. FY 2010 ACD at 106-07.
- FY 2015 ACD directive: After finding that the Postal Service had made progress towards addressing the issues raised in the FY 2010 ACD in subsequent years,<sup>76</sup> the Commission found that sufficient progress was no longer being made in FY 2015

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<sup>74</sup> Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011 (FY 2010 ACD).

<sup>75</sup> 39 U.S.C. § 101(d) requires the costs of postal operations to be apportioned to postal users on a fair and equitable basis.

<sup>76</sup> See Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2021, at 116 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance Determination*, March 27, 2014, at 54 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 47 (FY 2014 ACD).

and required the Postal Service to develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181.

- FY 2018 ACD directive: The Commission found that the Postal Service had made no progress toward addressing the FY 2010 ACD directive in FY 2016 through FY 2018, and that this required further corrective action. FY 2016 ACD at 57; FY 2017 ACD at 59; FY 2018 ACD at 70-71. As cost coverage continued to decline, the Commission found USPS Marketing Mail Flats to be in violation of 39 U.S.C. § 101(d) and required the Postal Service to propose a price increase for the product of at least 2 percentage points above the class average for USPS Marketing Mail in the next Market Dominant rate adjustment. FY 2018 ACD at 72. The Commission also required the Postal Service to continue responding to the Commission's FY 2010 and FY 2015 directives. *Id.*
- FY 2019, FY 2020, and FY 2021 ACD directives: The Commission found USPS Marketing Mail Flats continued to violate 39 U.S.C. § 101(d), and in each of these years directed the Postal Service to propose a price increase at least 2 percentage points above the class average for USPS Marketing Mail in the next Market Dominant rate adjustment, in addition to continuing to comply with the FY 2010 and FY 2015 directives for additional reporting. FY 2019 ACD at 42-43; FY 2020 ACD at 41-42; FY 2021 ACD at 60. The Commission noted in FY 2020 and FY 2021 that this directive also satisfies the new 39 C.F.R. § 3030.221, which requires such price increases for non-compensatory products in compensatory classes. FY 2020 ACD at 41; FY 2021 ACD at 60.

In FY 2022, the Postal Service complied with the FY 2010 directives for additional reporting. Of note, the Postal Service points to three costing methodology changes in FY 2022 that had a potential measurable effect on the reported costs for USPS Marketing Mail Flats. FY 2022 ACR at 35-36. The Postal Service explains that had these methodological changes been in place during FY 2022, they would have resulted in a slightly smaller year-over-year unit cost increase. *Id.*

The Postal Service also reports on the historical and current intra-class subsidy of USPS Marketing Mail Flats. *Id.* at 37-38. Despite the improvement in the contribution shortfall noted above, the Postal Service asserts that it is unable to provide an estimated timeline for phasing out the USPS Marketing Mail Flats subsidy, because “[u]nit costs change from year to year, ...CPI is unpredictable, particularly over the long term, and...the volume of [USPS] Marketing Mail Flats sent has decreased dramatically—approximately by half—in the last seven years.” *Id.* at 38.

In response to the FY 2021 ACD directive and in compliance with 39 C.F.R. § 3030.221, the Postal Service raised prices for USPS Marketing Mail Flats by 2 percentage points higher than the USPS Marketing Mail class average in the Market Dominant rate increase during

FY 2022. *Id.* at 37-38. Specifically, the Postal Service raised rates on Flats by 8.543 percent in FY 2022.<sup>77</sup>

The Postal Service states that its schedule for future USPS Marketing Mail Flats price increases will continue to increase those rates by at least 2 percentage points above the class average, until such time as the product is no longer subject to 39 C.F.R. § 3030.221 or the Commission otherwise revises its pricing directives. *Id.* at 34.

#### (4) Comments on USPS Marketing Mail Flats

The Public Representative notes the improvement in cost coverage for USPS Marketing Mail Flats in FY 2022. PR Comments at 9. He “concludes that in the future, above average price adjustments work effectively to close the gap between revenues and costs gradually in the next few years.” *Id.* at 10. At the same time, however, he states that “[a]lthough the Postal Service has taken some good steps to reduce [USPS Marketing Mail] Flats attributable costs, including the phasing out of the FSS program, it must apply additional investment and initiatives to enable revenue to exceed attributable cost.” *Id.*

ACMA notes the improvement in cost coverage for USPS Marketing Mail Flats in FY 2022 but asserts that the costs associated with flat-shaped mail products, including USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail High-Density/Saturation Flats, have been excessive, with unit attributable costs well in excess of either CPI or factor prices. ACMA Comments at 6-10. ACMA also posits that the costs associated with USPS Marketing Mail Flats in the 5-Digit Automation price category appear too high relative to USPS Marketing Mail Carrier Route, given the similarities in processing operations between the two products. *Id.* at 13. As previously noted, ACMA also states that city carrier street times associated with flats categories appear excessive relative to letter-shaped mail. *Id.* at 14; *see* Section III.B.1.d., *supra*. ACMA suggests that the reporting of aggregate unit attributable costs for combined flat-shaped products per 39 C.F.R. § 3050.50(b)(5)(ii) could be improved by the Commission requiring the development of weighted unit cost indexes. *Id.* at 12. ACMA cautions that continued rate increases for flat-shaped mail products will result in counter-productive volume losses. *Id.* at 2.

PostCom acknowledges the apparent improvement in USPS Marketing Mail Flats shortfall in FY 2022 relative to past years, but states that “much of that reduction is because volume declined by more than six percent.” PostCom Comments at 5-6. PostCom argues that the above-average price increases for USPS Marketing Mail Flats, which appears to be the Postal Service’s only approach to improving cost coverage, are not having the intended effect. Rather, by following Commission pricing directives, the Postal Service “is pricing flat mail out of the system and triggering an apparent death spiral.” *Id.* at 9. In PostCom’s opinion, the Postal Service “would arguably be better off holding prices constant to limit volume losses rather than driving additional volume from an inflexible and inefficient network.” *Id.* at 7.

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<sup>77</sup> *Id.* at 21. The class average rate increase was 6.500 percent. *See id.*

NAPM encourages the Postal Service to restart the Headquarters cross-functional flats team,<sup>78</sup> which the Postal Service reports is on hiatus pending the outcome of the Postal Service's ongoing efforts to restructure its network.<sup>79</sup>

(5) Commission Analysis

The Commission's analysis of USPS Marketing Mail Flats examines cost coverage, the intra-class subsidy, changes in the product-level mail mix, and major cost segments.

(a) FY 2022 Cost Coverage and Unit Contribution

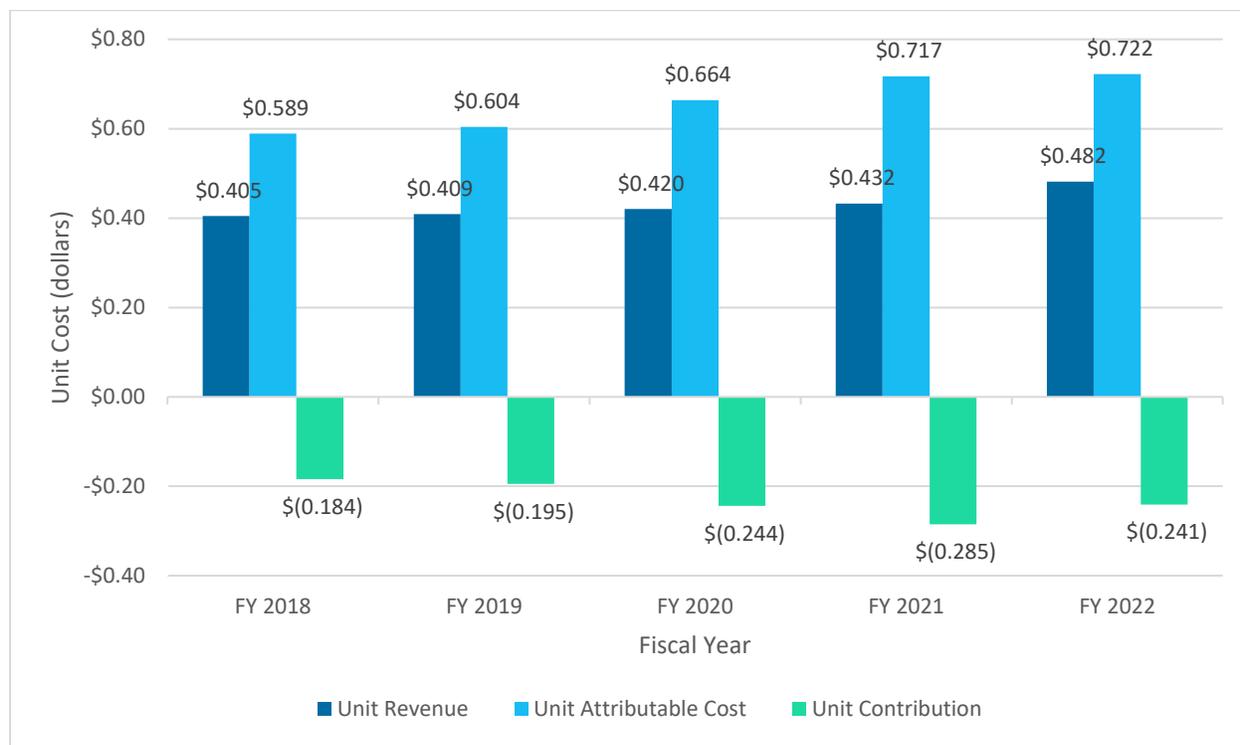
As described above, the cost coverage for USPS Marketing Mail Flats was 66.7 percent in FY 2022, 6.4 percentage points higher than in the prior year. Library Reference PRC-LR-ACR2022-4. As shown in Figure III-6, the unit contribution of USPS Marketing Mail Flats was -24.1 cents in FY 2022, a 4.4 cent increase from FY 2021. Since cost coverage and unit contribution are functions of both cost and revenue, the Commission also shows unit cost and revenue trends in Figure III-6. Unit revenues increased by 11.4 percent, from 43.2 cents in FY 2021 to 48.2 cents in FY 2022. Reported unit attributable cost increased by only 0.7 percent in FY 2022, from 71.7 cents in FY 2021 to 72.2 cents in FY 2022, compared to 8.0 percent in FY 2021. The Commission notes, however, that the rate of increase in costs is lower due in part to the absence of attributable RHB normal costs in FY 2022. *See* Section I.A.D., *supra*.

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<sup>78</sup> NAPM indicates that the Headquarters cross-functional flats team's goal is to identify and implement cost saving measures around flats processing and improvements aimed at boosting service performance. NAPM Comments at 13.

<sup>79</sup> NAPM Comments at 13-14 (citing Library Reference USPS-FY22-45, ZIP folder "FY22.45.Files," subfolder "Rule 3050.50 Flats," subfolder "Paragraph (f) – Operational Changes Report," file "FY22 Paragraph (f) Flats Operational Initiatives Report.pdf," at 2).

**Figure III-6**  
**USPS Marketing Mail Flats Unit Revenue, Attributable Cost,**  
**and Contribution, FY 2018–FY 2022**



Source: Library Reference PRC-LR-ACR2022-4.

### (b) Intra-Class Cross-Subsidy

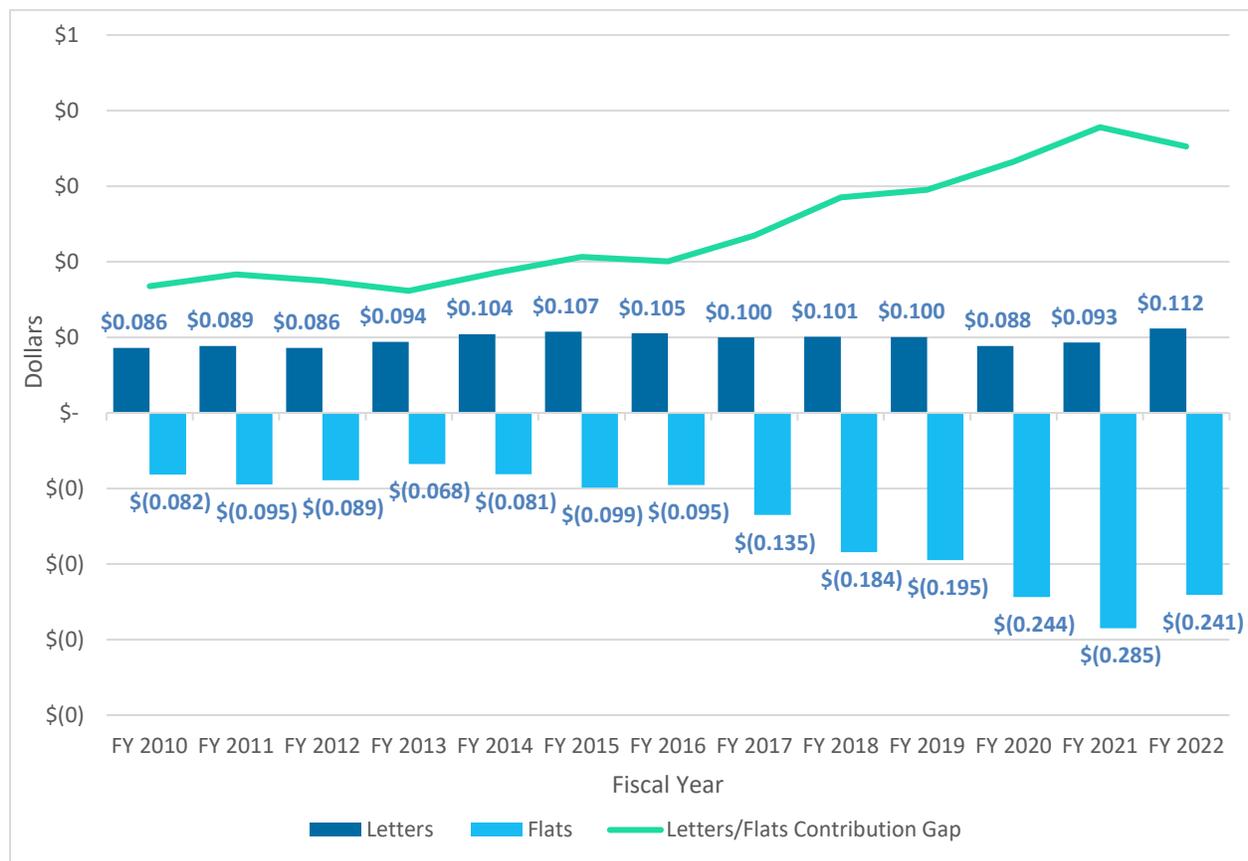
In the FY 2010 ACD, as part of its findings of non-compliance, the Commission analyzed the intra-class subsidy received by USPS Marketing Mail Flats, specifically from USPS Marketing Mail Letters, and found that the rates for USPS Marketing Mail Flats “produced a substantial and growing cost coverage shortfall that burdened mailers of other [USPS Marketing Mail] products.”<sup>80</sup> The Commission issued the FY 2010 ACD directive with the intent of enabling the Postal Service to reduce the contribution gap between these products.<sup>81</sup>

<sup>80</sup> See FY 2010 ACD at 105-07; Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 8-10 (Order No. 1427); see also *USPS v. Postal Regul. Comm’n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012). The Commission identified several factors used in its determination including a significant and growing cost coverage shortfall; the duration of the shortfall over a significant period; evidence that the cost coverage shortfall was likely to increase further; a significant adverse impact on users of other mail products (some of whom could be competitors of mailers of the subsidized mail product) requiring subsidization of the non-complying product; failure of the Postal Service to address the shortfall by rate increases, cost increases, or a combination thereof, despite the capability to do so; and the failure of the Postal Service to provide an adequate explanation for not taking necessary remedial steps designed to ameliorate the cost coverage shortfall. Order No. 1427 at 9.

<sup>81</sup> *Id.* at 8. The contribution gap is calculated as the difference between the unit contribution made by USPS Marketing Mail Letters and the unit contribution made by USPS Marketing Mail Flats.

As Figure III-7 shows, in FY 2022 the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats showed improvement. In FY 2010, the fiscal year in which the directive was issued, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was 16.8 cents. By FY 2021, the contribution gap between these two products had reached an all-time high of 37.8 cents. In FY 2022, however, the contribution gap fell slightly to 35.3 cents. As shown in Figure III-7, FY 2022 was only the second fiscal year since FY 2013, roughly the last 10 years, during which the contribution gap declined. Over the long term, the unit contribution for USPS Marketing Mail Flats has decreased by 16 cents since FY 2010, while the unit contribution for USPS Marketing Mail Letters since FY 2010 has gone up slightly.

**Figure III-7**  
**USPS Marketing Mail Flats and Letters Unit Contribution**  
**and Contribution Gap, FY 2010–FY 2022**



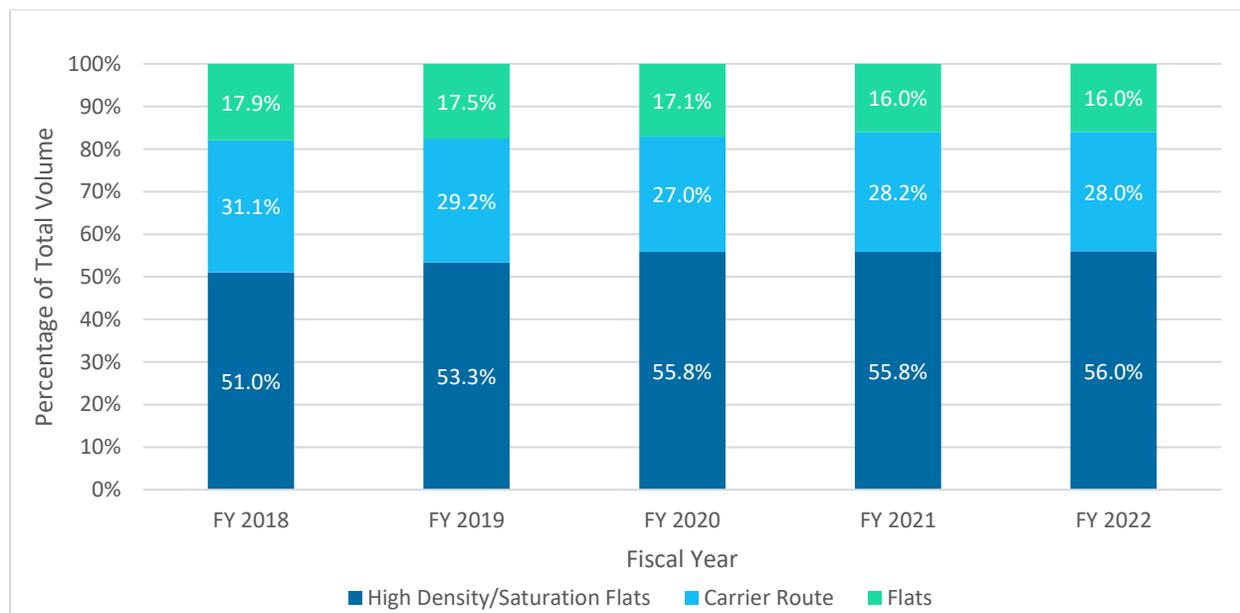
Source: Library Reference PRC-LR-ACR2022-4.

(c) Changes in the Product-Level Mail Mix

The Commission notes, as part of its analysis for USPS Marketing Mail Flats, that changes have occurred in the mail mix in recent years. Figure III-8 shows the distribution of USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail High Density/Saturation Flats volumes. In past years, USPS Marketing Mail High Density/Saturation Flats came to occupy an increasing share of flat-shaped USPS Marketing Mail. However, the mail mix changed very little between FY 2021 and FY 2022. The Postal Service states that it is unable to say whether previously observed trends in migration from USPS Marketing Mail Flats to High-Density products affected FY 2022 or are likely to continue. CHIR No. 7, question 15.b.

The Postal Service explains that prior to the COVID-19 pandemic, 5 years of positive growth in USPS Marketing Mail High-Density Flats allowed for the drawing of general conclusions with respect to the impact of co-mailing on the USPS Marketing Mail mix, but current data are inconclusive. CHIR No. 7, question 15.b. While all three products experienced volume decreases in absolute terms in FY 2022, USPS Marketing Mail Flats volumes declined by 6.1 percent, whereas USPS Marketing Mail High Density/Saturation Flats declined by only 5.5 percent. *Id.* These volume declines, in combination with the mail mix shifts that have occurred over the previous 5 fiscal years, have resulted in the changes in volume distribution seen in Figure III-8.

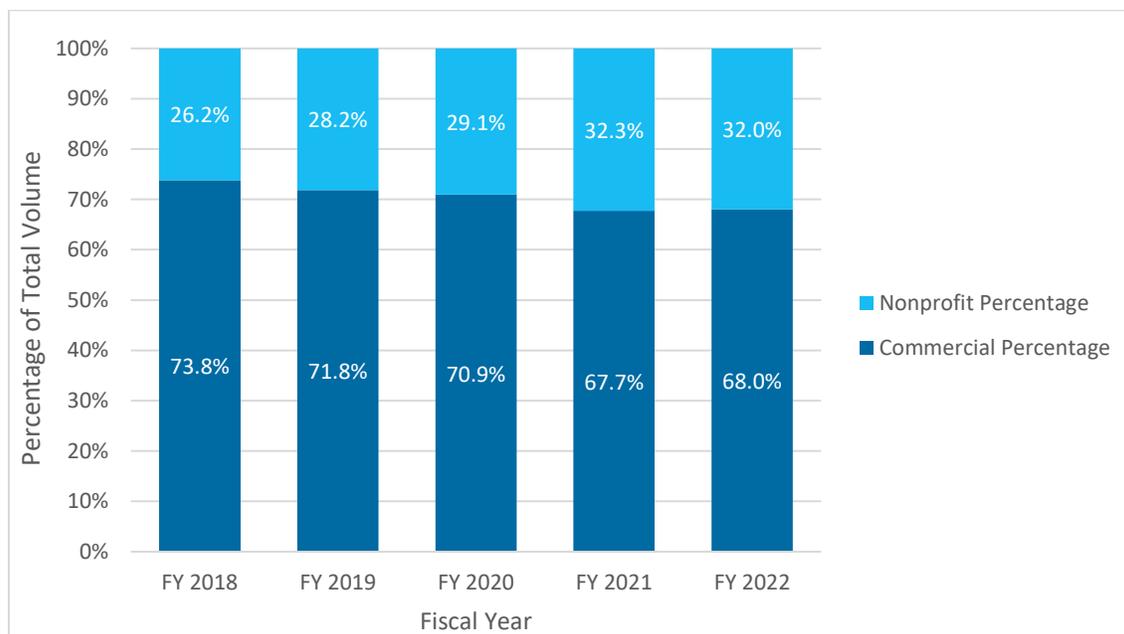
**Figure III-8**  
**Volume Distribution of USPS Marketing Mail Flats, Carrier Route,**  
**and High Density/Saturation Flats, FY 2018–FY 2022**



Source: Library Reference PRC-LR-ACR2022-4.

Additional changes have occurred in the distribution of nonprofit and commercial mail within the USPS Marketing Mail Flats product as shown in Figure III-9. The nonprofit share of USPS Marketing Mail Flats increased each year between FY 2018 and FY 2021. However, after years of steady growth, the Postal Service notes that the proportion of Nonprofit Flats remained essentially flat in FY 2022 at 32.0 percent. FY 2022 ACR at 21.

**Figure III-9**  
**USPS Marketing Mail Flats Commercial-Nonprofit Mail Mix, FY 2018–FY 2022**



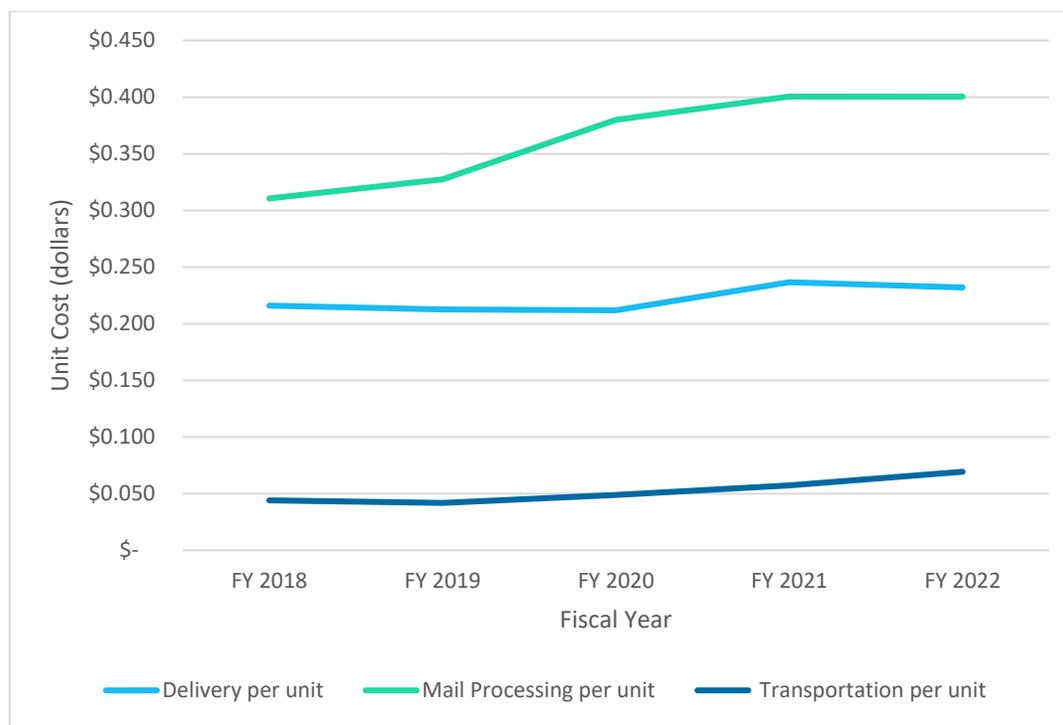
Source: Library Reference PRC-LR-ACR2022-4.

Changes in the mail mix of commercial and nonprofit mail can serve to dampen the expected effects of rate increases on unit revenue for the USPS Marketing Mail Flats product, as volume shifts to nonprofit pieces which by law are required to have lower prices. *See* 39 U.S.C. § 3626(a)(6)(A). The Commission notes that it is too early to tell whether previously observed trends are changing or if FY 2022 was simply an anomalous year. The Commission will continue to monitor these trends and continues to encourage the Postal Service to seek a better understanding of mail mix trends and factor them into its operational and pricing decisions.

#### (d) Major Unit Cost Segments

From FY 2021 to FY 2022, the reported unit attributable costs of USPS Marketing Mail Flats increased by 0.5 cents, or by 0.7 percent. Figure III-10 shows that reported mail processing costs remained relatively unchanged between FY 2021 and FY 2022, while unit delivery costs decreased by 0.5 cents, or 2.0 percent, and unit transportation costs increased by 1 cent, or 20.9 percent.

**Figure III-10**  
**Unit Cost of Major Cost Segments, FY 2018–FY 2022<sup>82</sup>**



Source: Library Reference PRC-LR-ACR2022-4.

In Response to CHIR No. 7, the Postal Service explains that the increase in unit attributable costs for USPS Marketing Mail Flats in FY 2022 was primarily driven by increases in transportation costs, particularly highway transportation costs.<sup>83</sup> These increased transportation costs were partially offset by a decline in unit delivery costs, and to a lesser extent, a decrease in postmasters' unit costs. *Id.* question 18.b. While the Postal Service states that it is difficult to isolate the impact that specific cost mitigation efforts had on reducing costs in FY 2022, the Postal Service nevertheless identifies initiatives that “may” have had an effect on reducing USPS Marketing Mail Flats costs. *Id.* question 18.c. These include the Bundle Sorter Bin Expansion, Additional Package/Bundler Sorter Machines, and Full-Service Bundle Visibility initiatives. *Id.*

The Commission has acknowledged that some of the observed changes in costs are a result of the absence of attributable RHB normal costs in FY 2022, which were not incurred and appropriately excluded from the CRA in FY 2022. *See* Chapter I, *supra*. Furthermore, the

<sup>82</sup> Mail processing cost per unit is calculated as piggybacked mail processing cost segment components. *See* Library Reference USPS-FY22-24, December 29, 2022. Delivery cost per unit is calculated as piggybacked city carrier and rural carrier cost segments. *See id.* Transportation cost per unit is calculated as transportation cost segment per unit. *See* Library Reference USPS-FY22-2, December 29, 2022.

<sup>83</sup> Response to CHIR No. 7, question 18.a. The Postal Service speculates that some of this increase might have been attributable to an increase in origin-entered volume in FY 2022. *Id.*

Commission continues to note that overarching issues facing flat-shaped products will be discussed in its forthcoming Flats Study. *See id.*

(6) FY 2022 Directive

Given the continuing severity of the deficiency in cost coverage for USPS Marketing Mail Flats, the Commission continues to find that this product violates 39 U.S.C. § 101(d) by constituting an intra-class subsidy. The Commission recognizes the improvement in cost coverage for this product in FY 2022.

The Commission notes that its FY 2010, FY 2015, FY 2018, and FY 2019 through FY 2021 directives have all, to a large extent, been eclipsed by recent regulatory changes, particularly the Commission's adoption of new rules for non-compensatory classes and products, and improved flats reporting requirements. 39 C.F.R. pt. 3030, subpt. G; 39 C.F.R. §§ 3050.50, *et seq.* As a result, the Commission has determined not to re-issue the FY 2010, FY 2015, FY 2018, and FY 2019 through FY 2021 directives for FY 2023. The Commission is hopeful that further improvements in cost coverage and a further decrease in the intra-class subsidy will be observed in FY 2023. At the same time, the Commission recognizes that price increases alone will not result in this product's compliance with 39 U.S.C. § 101(d). The full solution must come from a combination of revenue increases and cost reductions. The Commission urges the Postal Service to continue to pursue such cost reductions.

PostCom's recommendation that the Postal Service hold rates constant to limit volume loss would conflict with 39 C.F.R. § 3030.221, whereunder, if the Postal Service chooses to file rate changes for the Marketing Mail class, the rate change on products whose attributable costs exceed revenue must be at least 2 percentage points above the class average. Additionally, even if holding rates steady were to reduce volume loss, steady rates and declining volume would necessarily lead to an increasing revenue decline, making it more difficult for cost-cutting measures on their own to bring the product into compliance with 39 U.S.C. § 101(d). The Commission also notes that ACMA's recommendation that the Commission revise the existing methodology to index unit costs to correct for changes in the mail mix is outside the scope of this proceeding. However, the Commission encourages the Postal Service to consider the comments of NAPM to restart the Headquarters cross-functional flats team.

USPS Marketing Mail Flats remains particularly emblematic of the problems that can occur when a non-compensatory product continues to exist for a prolonged period of time.<sup>84</sup>

*The Commission finds that the cost coverage for USPS Marketing Mail Flats remains severely deficient, despite improvement in FY 2022. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, 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. In addition, the Commission urges the Postal Service to continue to pursue cost reductions, while*

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<sup>84</sup> See Section III.C.1.a.(2), *supra* (citing a \$8.9 billion loss).

*it concludes its analysis of inefficiencies in flats operations and the impact of initiatives on the cost of flat-shaped products as part of its Flats Study. For the reasons discussed above, the Commission removes the directives related to USPS Marketing Mail Flats stemming from the FY 2010, FY 2015, FY 2018, and FY 2019 through FY 2021 ACDs.*

b. USPS Marketing Mail Carrier Route

(1) Introduction

In FY 2022, USPS Marketing Mail Carrier Route had a cost coverage below 100 percent for the fourth year in a row, although cost coverage improved 4.8 percentage points compared to FY 2021, and the product is now nearly compensatory. Unit attributable cost has been increasing steadily over the past 5 years, but unit revenue has improved.

(2) FY 2022 Results

In FY 2022, USPS Marketing Mail Carrier Route had a cost coverage of 99.4 percent, up from 94.6 percent in FY 2021. Library Reference PRC-LR-ACR2022-4. The Postal Service states that, in FY 2022, unit revenue increased by 12.4 percent, while unit cost rose by 7.0 percent. FY 2022 ACR at 18-19. The Postal Service attributes the improvement in cost coverage in large part to the above-average price increase applied to Carrier Route in recent rate adjustments. *Id.* at 19. The Postal Service also attributes the improvement to changes in the mail mix within the product, noting that the proportion of the product made up of commercial volume increased by 5.2 percentage points to 92.7 percent, while the proportion of nonprofit volumes correspondingly decreased to 7.3 percent. *Id.*

The Postal Service states that the most significant drivers of the cost increase for USPS Marketing Mail Carrier Route in FY 2022 were increases in the unit cost for transportation, mail processing, and delivery. Response to CHIR No. 7, question 16.a.

The Postal Service explains that most of the volume change with respect to flat-shaped USPS Marketing Mail, including USPS Marketing Mail Carrier Route, was the result of FY 2022 not being part of a national election cycle as it was in FY 2021, which began in October 2020 and included a general election in November 2020. *Id.* question 15.a.

(3) Prior Commission Directives

In FY 2021, the Commission required that the Postal Service propose price increases that were at least 2 percentage points above the class average for the USPS Marketing Mail class in each generally applicable Market Dominant price adjustment. FY 2021 ACD at 65. In FY 2022, the Postal Service complied with these directives. The Commission notes that the Postal Service has increased prices for USPS Marketing Mail Carrier Route more than 2 percentage points above the class average in each of the last four rate adjustment proceedings, including an 8.657 percent increase in Docket No. R2022-1 and a 6.209 percent increase in Docket No. R2023-1. *See* Order No. 6188 at 68; Order No. 6341 at 56. The class average for USPS Marketing Mail was 6.500 percent and 4.202 percent, respectively. *See id.*

The Commission also directed the Postal Service to continue to explore and implement opportunities to further reduce the unit costs of flat-shaped mail products, including USPS Marketing Mail Carrier Route. FY 2021 ACD at 65. In accordance with the improved flats reporting requirements, the Postal Service reports on cost reduction initiatives in Library Reference USPS-FY22-45 pursuant to 39 C.F.R. § 3050.50.

(4) Comments on USPS Marketing Mail Carrier Route

The Public Representative notes the improvement in cost coverage for USPS Marketing Mail Carrier Route in FY 2022. PR Comments at 7. He expresses concern about “the Postal Service’s continuing need to manage increasing costs for this and other products[,]” given that “persistent declining volumes constantly push up unit costs.” *Id.* at 7-8. As a result, he states that “maintaining cost control efforts targeted toward reduced volume expectation [is] recommended.” *Id.* at 8. He “anticipates that the 6.2 percent price increase due to Docket No. R2023-1 will be sufficient for Carrier Route to reach full cost coverage and [be] compensatory in FY 2023” if the Postal Service can manage its attributable costs efficiently. *Id.*

ACMA also notes the improvement in cost coverage for USPS Marketing Mail Carrier Route in FY 2022. ACMA Comments at 6. ACMA notes volume losses for nonprofit USPS Marketing Mail Carrier Route mail in FY 2022, which ACMA suggests is attributable to the nonprofit component receiving larger rate increases in FY 2022 than the commercial component. *Id.* at 7-8. Similar to USPS Marketing Mail Flats, AMCA also expresses concern with the rate of increase in unit attributable costs for USPS Marketing Mail Carrier Route relative to both the CPI and USPS Marketing Mail Letters. *Id.* at 9-10.

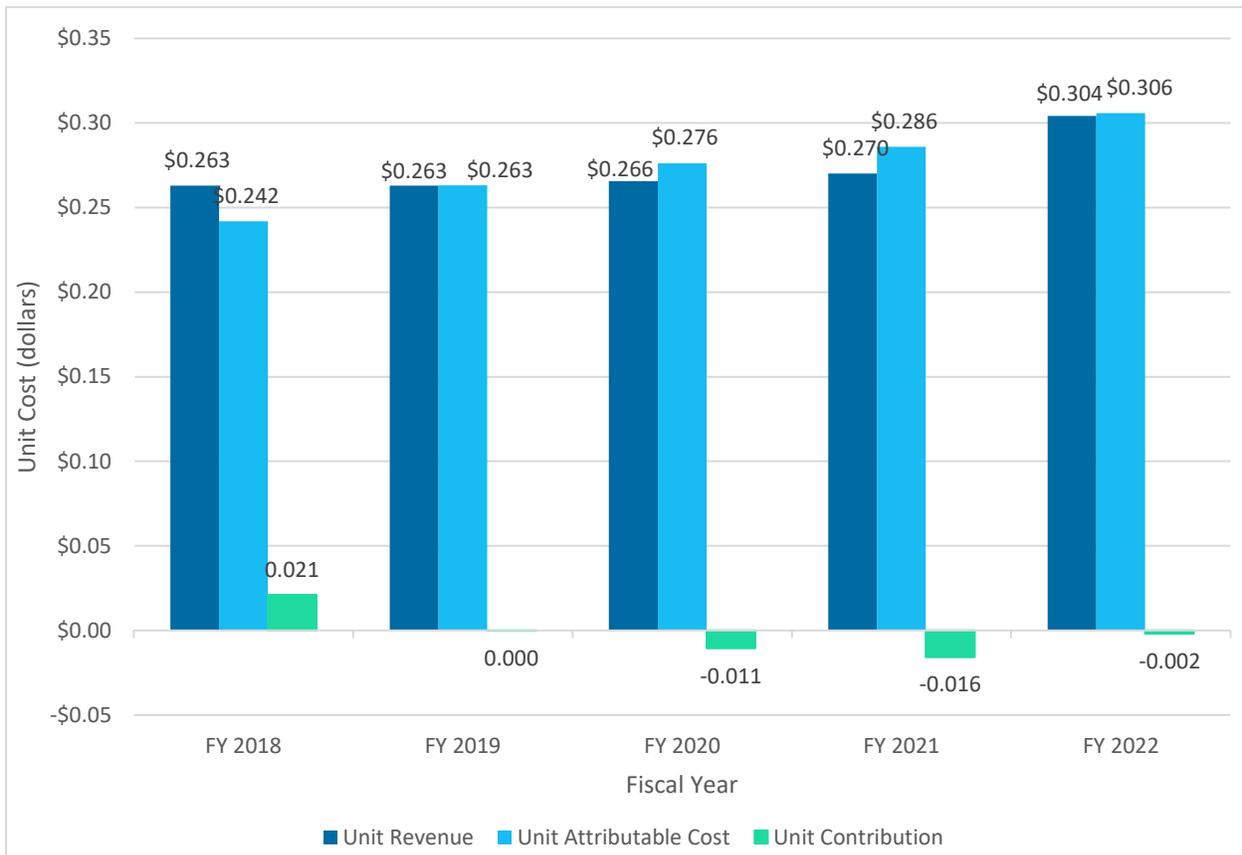
PostCom maintains that any apparent cost coverage improvements with respect to flat-shaped mail products are to some extent due to the exclusion of RHB normal costs in FY 2022. PostCom Comments at 2. Using USPS Marketing Mail Carrier Route as an example, PostCom argues that “the murkiness of cost coverage estimates argues against continued application of the additional two percent rate authority on non-compensatory products until the Commission completes its congressionally-mandated flats study.” *Id.* In reply, the Postal Service states that PostCom’s premise is incorrect, because the Commission’s rules do not provide “additional” rate authority for compensatory classes. Postal Service Reply Comments at 7-8.

(5) Commission Analysis

As Figure III-11 shows, unit contribution for USPS Marketing Mail Carrier Route, after falling steadily from FY 2018 to FY 2021, showed improvement in FY 2022. While the Postal Service has increased unit revenue by raising prices above the class average, these price increases have not been enough to keep up with the changes in unit cost over the last 5 fiscal years. Since FY 2018, the last year that USPS Marketing Mail Carrier Route was compensatory, unit cost increased by 6.4 cents, while unit revenue increased by only 4.1 cents. In FY 2022, the increase in unit revenue was 12.4 percent, which outpaced the increase in reported unit cost of 7.0 percent. FY 2022 ACR at 18-19. The Commission acknowledges, that the absence of attributable RHB normal costs has observable effects on

figures reported by the Postal Service in the FY 2022 ACR when compared to prior years when the Postal Service incurred and attributed such costs. *See Chapter I, supra.*

**Figure III-11**  
**USPS Marketing Mail Carrier Route**  
**Unit Revenue, Unit Attributable Cost, and Unit Contribution, FY 2018–FY 2022<sup>85</sup>**

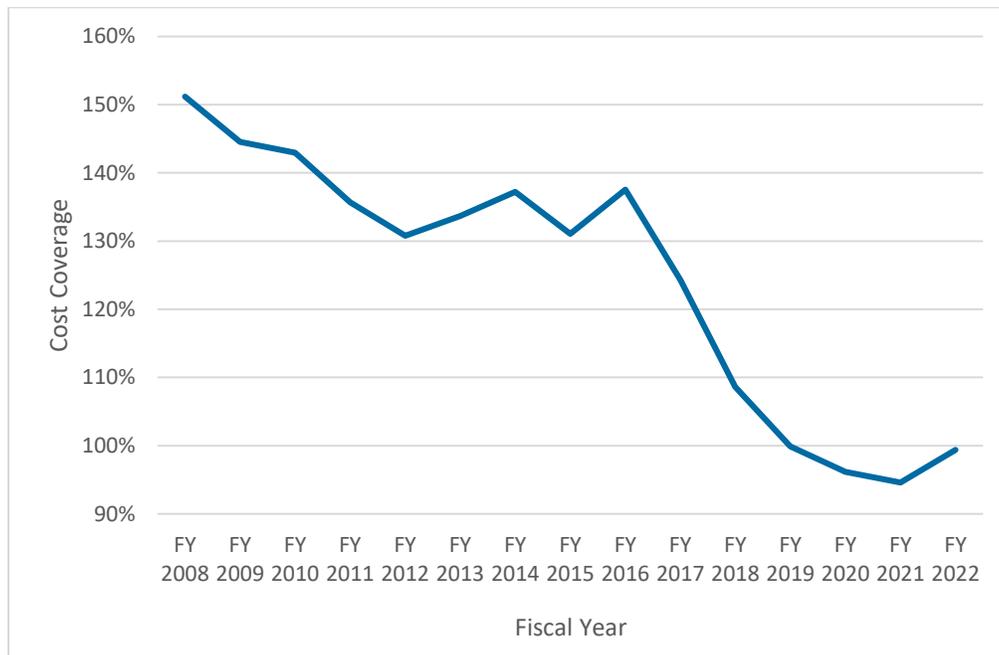


Source: Library Reference PRC-LR-ACR2022-4.

Figure III-12 illustrates changes in cost coverage for USPS Marketing Mail Carrier Route. Since its peak of 151.2 percent in FY 2008, cost coverage has dropped by 51.8 percentage points. The cost coverage for USPS Marketing Mail Carrier Route steadily decreased from FY 2016 through FY 2021 by an average of 8.6 percentage points each year, before recovering by 4.8 percentage points in FY 2022.

<sup>85</sup> Complete FY 2008 through FY 2022 USPS Marketing Mail Carrier Route data can be found in Library Reference PRC-LR-ACR2022-4.

**Figure III-12**  
**USPS Marketing Mail Carrier Route Cost Coverage, FY 2008–FY 2022**



Source: Library Reference PRC-LR-ACR2022-4.

Given the improvement that has occurred, which includes the Postal Service not incurring costs related to RHB in FY 2022, the Commission is cautiously optimistic that the Postal Service will be able to restore this product to compensatory status going forward.

Although the Postal Service is correct that that the Commission's rules do not grant additional rate authority for non-compensatory products within compensatory classes, the Commission understands PostCom's comment as having been directed at the individual product requirement at 39 C.F.R. § 3030.221. As articulated in Order No. 5763, 39 C.F.R. § 3030.221 serves an important purpose related to non-compensatory products in compensatory classes and the Commission intends to require the Postal Service to comply. Order No. 5763 at 182-83.

As noted above, the Commission finds that its FY 2021 directives related to USPS Marketing Mail Carrier Route have, to a large extent, been eclipsed by recent regulatory changes, particularly the Commission's adoption of new rules for non-compensatory classes and products and improved flats reporting requirements. 39 C.F.R. pt. 3030, subpt. G; 39 C.F.R. §§ 3050.50, *et seq.*; Section III.C.3.1.a.(6). As a result, the Commission has determined not to re-issue these directives in FY 2023.

*The Commission finds that the FY 2022 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost, but the product's cost coverage showed improvement. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, 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. In addition, the Commission urges the Postal Service to continue to pursue cost reductions, while it concludes its analysis of inefficiencies in flats operations and the impact of initiatives on the cost of flat-shaped products as part of its Flats Study.*

c. USPS Marketing Mail Parcels

(1) Introduction

As with USPS Marketing Mail Flats, USPS Marketing Mail Parcels has a long history of deficient cost coverage. Both cost coverage and contribution for USPS Marketing Mail Parcels improved in FY 2022.

(2) FY 2022 Results

In FY 2022, USPS Marketing Mail Parcels had a cost coverage of 87.5 percent, up 14.4 percentage points from FY 2021. The Postal Service explains that unit revenue increased by 16.6 percent while unit cost decreased by 2.5 percent. FY 2022 ACR at 19. The Postal Service notes that it followed the Commission's directive to increase prices for USPS Marketing Mail Parcels by at least 2 percentage points above the class average. *Id.* at 19-20. In Docket No. R2022-1, the Postal Service proposed, and the Commission approved, a price increase of 9.785 percent for this product. Order No. 6188 at 64, Table VI-1.

The Postal Service explains the decrease in reported costs in FY 2022 as being primarily driven by decreases in the unit cost of transportation<sup>86</sup> and delivery. The Postal Service attributes the decreases in the unit cost of transportation to both a methodological change, which was expected to have a slight decrease on transportation costs for USPS Marketing Mail Parcels, and a slightly higher percentage of volume being entered close to its destination. Response to CHIR No. 7, question 17.

(3) Comments on USPS Marketing Mail Parcels

The Public Representative notes the improvement in cost coverage for USPS Marketing Mail Parcels in FY 2022. PR Comments at 8. Nevertheless, he "anticipates the Docket No. R2023-1 rate increase above the authorized 2 percent price increase might not be sufficient for [USPS] Marketing Mail Parcels to fully cover its costs in FY 2023 unless the Postal Service is able to manage and further reduce [USPS Marketing Mail] Parcels' unit costs significantly." *Id.* at 9.

PostCom states that it "is concerned that an overemphasis on repairing product level cost coverages through higher prices may damage USPS Marketing Mail" and that requirements to raise the price of USPS Marketing Mail products, including USPS Marketing Mail Parcels,

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<sup>86</sup> The Postal Service attributed the decrease in transportation cost to a recent change in the accepted costing methodology that introduced TRACS-based highway peak season distribution keys into the transportation cost model. Response to CHIR No. 7, question 17. See Order No. 6322. The Postal Service also attributes the decrease to a shift in the destination-entry profile for USPS Marketing Mail Parcels, with more volume being entered closer to its destination in FY 2022. Response to CHIR No. 7, question 17.

2 percent above the class average “will have a trivial effect on the Postal Service’s financial performance.” PostCom Comments at 8.

(4) Prior Directives

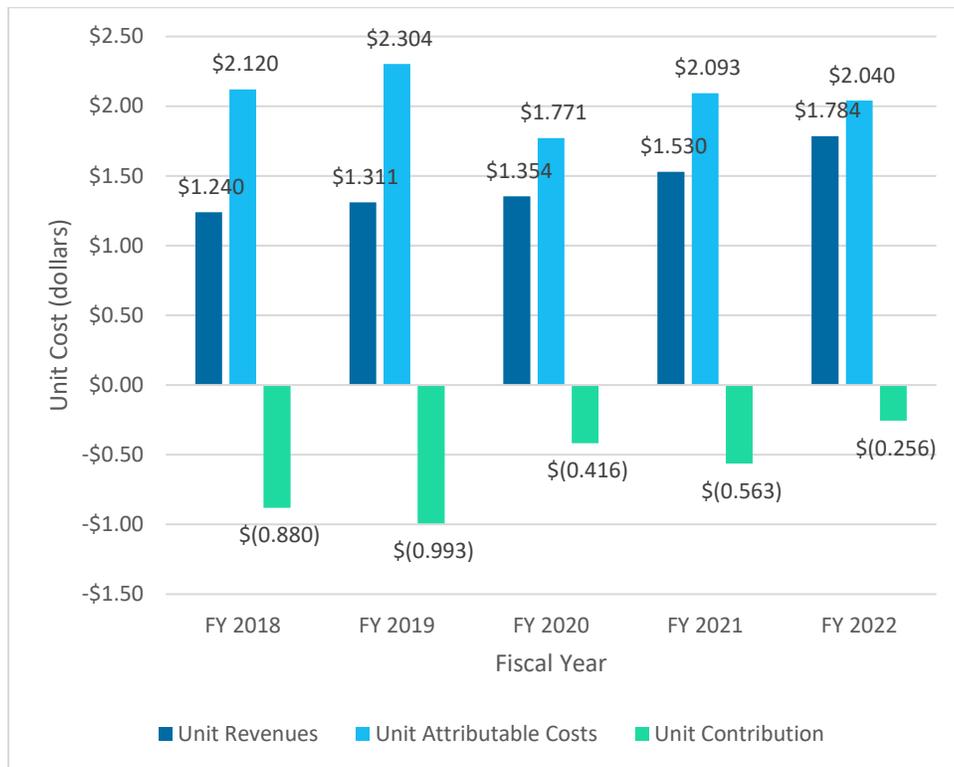
The Commission has previously directed the Postal Service to utilize its pricing flexibility to eliminate the intra-class cross-subsidy received by this product. *See, e.g.*, FY 2010 ACD at 108; FY 2020 ACD at 46. In the FY 2021 ACD directive, the Commission required that the Postal Service increase USPS Marketing Mail Parcels’ prices by at least 2 percentage points above the class average. FY 2021 ACD at 69. The Postal Service complied, increasing prices for USPS Marketing Mail Parcels by 9.785 percent in Docket No. R2022-1 and 20.493 percent in Docket No. R2023-1. Order No. 6188 at 64, Table VI-1; Order No. 6341 at 52, Table VI-1. The average for the USPS Marketing Mail class in each of these dockets was 6.500 percent and 4.202 percent respectively. The increase in unit revenue in FY 2022, coupled with a decrease in reported unit cost, led to an improvement in the product’s cost coverage.

The Commission also encouraged the Postal Service, commensurate with the small size of the product, to explore and implement opportunities to further reduce the unit costs of USPS Marketing Mail Parcels and report on those opportunities and results. FY 2021 ACD at 69. The Postal Service complied with this directive, stating that “the extremely small absolute and relative volume of this product...greatly impedes the practicality of management efforts focused exclusively on this product alone[,]” as “[h]andling of Marketing Mail Parcels in postal facilities typically occurs in contexts in which such pieces are mixed with other pieces of similar size and shape.” FY 2022 ACR at 31. Nevertheless, the Postal Service explains that in FY 2022 it began shifting the processing of certain package volumes from NDCs to local processing and distribution centers (P&DCs), which the Postal Service speculates could result in improvements to unit costs for USPS Marketing Mail Parcels. *Id.*

(5) Commission Analysis

In FY 2022, USPS Marketing Mail Parcels did not produce sufficient revenues to cover its attributable costs, although cost coverage improved substantially relative to FY 2021. Despite compliance with directives related to pricing and cost reporting, cost coverage for the product remains an issue. Figure III-13 displays the unit revenue, unit attributable cost, and unit contribution for USPS Marketing Mail Parcels from FY 2018 through FY 2022.

**Figure III-13**  
**USPS Marketing Mail Parcels Financial Comparison, FY 2018–FY 2022<sup>87</sup>**



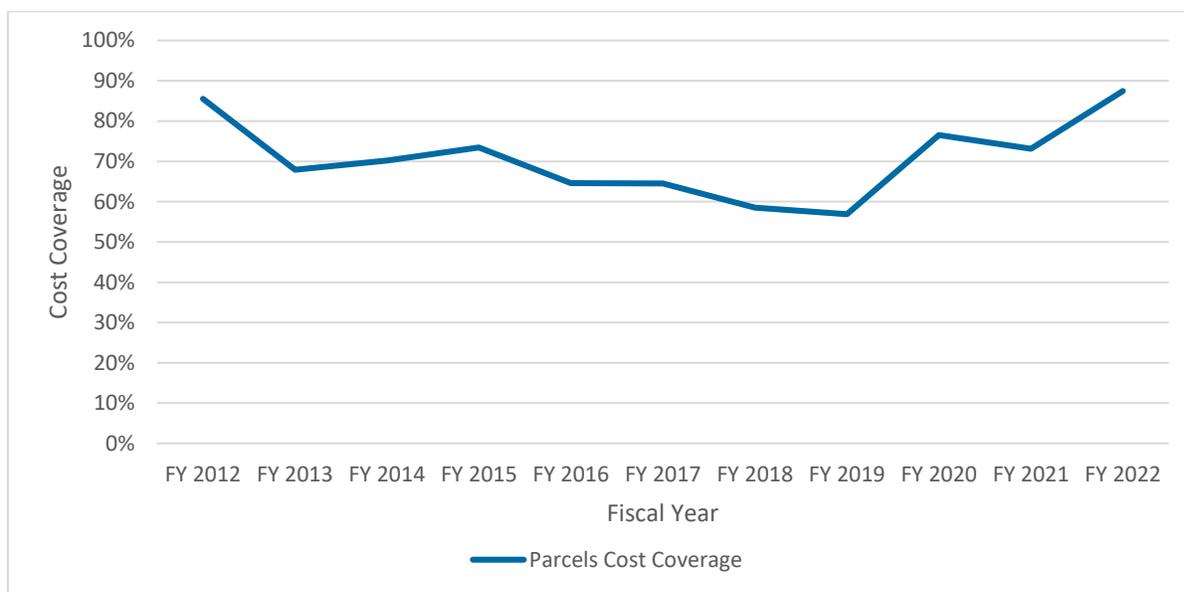
Source: Library Reference PRC-LR-ACR2022-4.

As illustrated in Figure III-13, unit attributable cost decreased from \$2.09 in FY 2021 to \$2.04 in FY 2022 while unit revenue increased from \$1.53 in FY 2021 to \$1.78 in FY 2022, resulting in a total negative unit contribution of 25.6 cents.

Figure III-14 shows the annual cost coverage for USPS Marketing Mail Parcels. In FY 2022, cost coverage for USPS Marketing Mail Parcels improved 14.4 percentage points. Contributing to this improvement was a substantial increase in unit revenue, coupled with a slight decrease in reported unit cost. The Commission does acknowledge that the absence of attributable RHB normal costs has observable effects on figures reported by the Postal Service in the FY 2022 ACR when compared to prior years when the Postal Service incurred and attributed such costs. *See Chapter I, supra.*

<sup>87</sup> Complete FY 2008 through FY 2022 USPS Marketing Mail Parcels data can be found in Library Reference PRC-LR-ACR2022-4.

**Figure III-14**  
**USPS Marketing Mail Parcels Cost Coverage, FY 2012–FY 2022**



Source: Library Reference PRC-LR-ACR2022-4.

The Commission finds the improvement in cost coverage for USPS Marketing Mail Parcels in FY 2022 to be a positive development. However, the Commission continues to be concerned about the repeated failure of USPS Marketing Mail Parcels to cover its costs, and the fluctuation in cost coverage makes it difficult to ascertain whether such improvement can be sustained. The cost coverage shortfall has existed for a significant period of time. The Commission concludes that USPS Marketing Mail Parcels' prices, like those of USPS Marketing Mail Flats, do not comply with 39 U.S.C. § 101(d) because they do not apportion the costs of postal operations to postal users on a fair and equitable basis.

As noted above, the Commission finds that its FY 2021 directives related to USPS Marketing Mail Parcels have all, to a large extent, been eclipsed by recent regulatory changes, particularly the Commission's adoption of new rules for non-compensatory classes and products and improved flats reporting requirements. 39 C.F.R. pt. 3030, subpt. G; 39 C.F.R. §§ 3050.50, *et seq.*; Section III.C.3.1.a.(6). As a result, the Commission has determined not to re-issue these directives in FY 2022.

*The Commission finds that the FY 2022 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable cost, but the product's cost coverage showed improvement. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must propose a price increase for USPS Marketing Mail Parcels that is at least 2 percentage points above the average for the class. The Commission also encourages the Postal Service to continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels, and the Postal Service shall report on those opportunities and results in the FY 2023 ACR.*

## 2. Package Services

### a. Introduction

After 3 consecutive fiscal years of the Package Services class not covering its costs, Package Services covered its attributable costs in FY 2022 and had an overall cost coverage of 102.2 percent, which was a 9.0 percentage point improvement from the class cost coverage of 93.2 percent in FY 2021.

The Package Services class consists of four products. Three of those products, Alaska Bypass Service, Bound Printed Matter (BPM) Parcels, and BPM Flats, covered their costs in FY 2022. The Media Mail/Library Mail product was the only Package Services product that failed to cover its costs in FY 2022. Table III-5 contains the cost coverage of each Package Services product as well as the overall class cost coverage for the last 5 fiscal years.

**Table III-5  
Package Services Cost Coverage, FY 2018–FY 2022**

Fiscal Year	Package Services Overall	Alaska Bypass Service	Bound Printed Matter Flats	Bound Printed Matter Parcels	Media Mail/Library Mail
FY 2018	102.6%	175.8%	148.9%	109.0%	76.7%
FY 2019	96.9%	155.9%	143.7%	106.1%	71.5%
FY 2020	92.5%	147.6%	125.8%	94.0%	79.3%
FY 2021	93.2%	129.8%	117.3%	94.6%	84.3%
FY 2022	102.2%	136.0%	124.7%	108.7%	91.3%

Source: Library Reference PRC-LR-ACR2022-6.

As Table III-5 shows, the cost coverage for the Package Services class in FY 2022 is near the highest cost coverage of the last 5 years, which was 102.6 percent cost coverage in FY 2018. Table III-5 further illustrates that cost coverages for all Package Services products except Media Mail/Library Mail decreased over the last 5 fiscal years. However, all Package Services products had an increase in cost coverage between FY 2021 and FY 2022.

Media Mail/Library Mail's cost coverage improved by 14.6 percentage points between FY 2018 and FY 2022 but continues to have the lowest cost coverage of all Package Services products. Below, the Commission discusses the FY 2022 financial results for Media Mail/Library Mail in more detail.

b. Media Mail/Library Mail

(1) Introduction

In FY 2022, the Media Mail/Library Mail product failed to cover its attributable cost. FY 2022 was the sixteenth consecutive year that Media Mail/Library Mail did not generate sufficient revenue to cover its attributable cost. *See* FY 2021 ACD at 41.

(2) FY 2022 Results

In FY 2022, Media Mail/Library Mail had a cost coverage of 91.3 percent, a 7.0 percentage point increase compared to FY 2021. The Postal Service states that the increase in cost coverage for Media Mail/Library Mail in FY 2022 is the result of a 51 cent increase in unit revenue, which outpaced the 22 cent increase in unit cost. FY 2022 ACR at 43.

The Postal Service states that the increase in unit revenue resulted from the above-average price increases in Docket No. R2021-2 and Docket No. R2022-1. *Id.* at 43-44. Docket No. R2021-2 included a 10.865 percent price increase for Media Mail/Library Mail, which was more than 2 percentage points above the average increase for the Package Services class of 8.804 percent. *Id.*; Order No. 5937 at 116. Docket No. R2022-1 included an 8.897 percent price increase for Media Mail/Library Mail, which exceeded the average increase for the Package Services class of 8.511 percent. FY 2022 ACR at 43-44; Order No. 6188 at 90. These price increases went into effect on August 29, 2021, and July 10, 2022, respectively. Order No. 5937 at 6; Order No. 6188 at 6. The Postal Service states that the Docket No. R2022-1 price increase coupled with the additional above-class average price increase in Docket No. R2023-1 (*i.e.*, 4.381 percent) should have a significant effect on cost coverage in FY 2023 and that it intends to continue to improve the cost coverage of Media Mail/Library Mail through above-average price increases. FY 2022 ACR at 44; Order No. 6341 at 92. The Docket No. R2023-1 price increase went into effect on January 22, 2023. Order No. 6341 at 7.

With respect to the 22.3 cent increase in unit cost for Media Mail/Library Mail, the Commission notes that this increase occurred despite the fact that the Postal Service did not incur costs related to RHB in FY 2022. The Postal Service explains that the 5.1 percent increase in unit cost was driven by increasing transportation and window service costs. Response to CHIR No. 5, question 2.a. The Postal Service further explains that Media Mail/Library Mail unit transportation costs rose by 23.4 percent or 32 cents in FY 2022, an increase that it attributes to the expected impacts of the Proposal Six methodological change and increases in Media Mail/Library Mail transported via air transportation. *Id.*; *see* Order No. 6322. The Postal Service states that unit window service costs increased by 16.8 percent or 2.9 cents in FY 2022. Response to CHIR No. 5, question 2.a. The Postal Service attributes this increase to a 4.5 percent increase in window clerk wage rates and the continued decline in the overall number of window transactions, which result in higher unit window service costs for products like Media Mail/Library Mail that are not available through certain alternative channels, such as Click-N-Ship. *Id.*

The Postal Service notes that inflationary pressure challenges its ability to make long-term reductions in unit costs. *Id.* question 2.b. The Postal Service states that more than 80 percent of Media Mail/Library Mail costs are related to mail processing or transportation. *Id.* The Postal Service notes that it plans to shift Media Mail/Library Mail processing from the NDC to the local P&DC by the end of FY 2023, Quarter 3, which the Postal Service represents should lead to more efficient processing and better transportation utilization that may reduce costs. *Id.*

### (3) Comments on Media Mail/Library Mail

The Public Representative notes that the Package Services class covered its attributable costs and contributed to institutional costs in FY 2022 for the first time in several years despite continued volume declines. PR Comments at 11. With regard to Media Mail/Library Mail, he states that cost coverage, per-piece loss, and per-piece revenue improved in FY 2022, while per-piece costs increased and volume declined. *Id.* at 11-12. He notes that the Media Mail/Library Mail product has received above-average price increases with additional recent price increases expected to have a more significant impact on cost coverage in FY 2023. *Id.* at 12. Based on these price increases, he expects Media Mail/Library Mail to fully cover its attributable costs in FY 2023. *Id.* He cautions, however, that the Postal Service must keep managing costs effectively. *Id.*

### (4) Commission Analysis

As noted above, the Media Mail/Library Mail product did not cover its attributable cost or make a contribution to institutional costs in FY 2022. Table III-6 contains the volume, unit revenue, unit attributable cost, unit contribution, and cost coverage of Media Mail/Library Mail since FY 2018.

**Table III-6**  
**Media Mail/Library Mail Financial Results, FY 2018–FY 2022**

Fiscal Year	Volume (Millions)	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2018	79.0	350.1	456.4	-106.4	76.7%
FY 2019	80.1	354.5	495.5	-141.1	71.5%
FY 2020	97.8	357.3	450.5	-93.2	79.3%
FY 2021	107.3	372.8	442.0	-69.2	84.3%
FY 2022	95.0	423.8	464.2	-40.4	91.3%

Source: Library Reference PRC-LR-ACR2022-6.

Although Media Mail/Library Mail covered only 91.3 percent of its attributable cost in FY 2022, as Table III-6 demonstrates, the product's financial results have improved considerably over the last 5 fiscal years. Between FY 2018 and FY 2022, Media Mail/Library Mail's unit revenue increased by 73.7 cents, which outpaced its unit cost increase of 7.8 cents over the same period, leading to an improved unit contribution of 65.9 cents. This improved contribution is also reflected in the product's cost coverage, which improved by 14.6 percentage points between FY 2018 and FY 2022. The Commission notes

that between FY 2021 and FY 2022 alone, unit contribution improved by 28.8 cents and cost coverage improved by 7.0 percentage points. The Commission also notes that although unit revenue, unit contribution, and cost coverage have all improved significantly since FY 2018, unit attributable costs have experienced more volatility over the same period and are an area where the Postal Service should focus efforts as it looks to improve the cost coverage for this product.

Table III-7 shows the history of price increases for Media Mail/Library Mail since the enactment of the PAEA. This table demonstrates that the Postal Service consistently increased the prices for Media Mail/Library Mail above the average price increase for the Package Services class. It also reflects that recent rate adjustments have resulted in larger price increases for the Media Mail/Library Mail product, which have substantially contributed to the recent increases in unit revenue, unit contribution, and cost coverage shown in Table III-6 above.

**Table III-7  
Media Mail/Library Mail Price Adjustment vs.  
Package Services Price Adjustment**

Docket No.	Media Mail/Library Mail Price Adjustment	Package Services Price Adjustment
R2008-1	4.538%	2.875%
R2009-2	7.468%	3.800%
R2011-2	1.964%	1.740%
R2012-3	2.581%	2.115%
R2013-1	3.469%	2.567%
R2013-10	2.061%	1.453%
R2015-4	2.197%	1.787%
R2017-1	1.135%	0.973%
R2018-1	1.993%	1.960%
R2019-1	2.954%	2.522%
R2020-1	1.993%	1.892%
R2021-1	3.579%	1.460%
R2021-2	10.865%	8.804%
R2022-1	8.897%	8.511%
R2023-1	4.381%	4.197%

Source: Library Reference PRC-LR-ACR2022-6.

According to the Postal Service, it intends to continue applying above-average price increases to Media Mail/Library Mail. FY 2022 ACR at 44. The Commission notes that the Postal Service will be required to do so whenever it proposes price adjustments for the Package Services class, because Media Mail/Library Mail is now a non-compensatory

product in a compensatory class and is therefore subject to the requirements of 39 C.F.R. § 3030.221.

*The Commission finds that the FY 2022 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the prices of Media Mail/Library Mail by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting Package Services through the issuance of the FY 2023 ACD.*

### 3. Special Services

#### a. Introduction

As a class, Special Services covered its attributable cost in FY 2022 and had an overall cost coverage of 155.5 percent. Table III-8 contains the cost coverages of a selection of key products from the 10 total Special Services products as well as the overall class cost coverage for the last 5 fiscal years.<sup>88</sup>

**Table III-8  
Special Services Cost Coverage, FY 2018–FY 2022**

Fiscal Year	Total Special Services Mail	Ancillary Services	International Ancillary Services	Address Management Services	Money Orders	Post Office Box Service	Stamp Fulfillment Services
FY 2018	131.0%	135.4%	114.9%	295.9%	108.1%	112.9%	87.4%
FY 2019	136.9%	145.6%	100.6%	299.1%	105.5%	115.1%	94.5%
FY 2020	143.7%	135.3%	94.8%	266.9%	97.7%	228.6%	142.7%
FY 2021	141.0%	133.7%	127.6%	318.8%	88.5%	218.9%	136.6%
FY 2022	155.5%	146.4%	204.9%	593.6%	99.2%	236.9%	127.7%

Source: Library Reference PRC-LR-ACR2022-7.

As Table III-8 shows, the cost coverage for the Special Services class in FY 2022 was the highest it has been in the last 5 fiscal years, reflecting a trend of the class cost coverage improving year-over-year in most years. Table III-8 further illustrates that cost coverages for listed Special Services products except Money Orders are higher in FY 2022 compared to FY 2018, and that all listed products except Stamp Fulfillment Services had an increase in cost coverage between FY 2021 and FY 2022.

<sup>88</sup> The 10 Special Services products are: (1) Ancillary Services; (2) International Ancillary Services; (3) Address Management Services; (4) Caller Service; (5) Credit Card Authentication; (6) International Reply Coupon Service; (7) International Business Reply Mail Service; (8) Money Orders; (9) Post Office Box Service; and (10) Stamp Fulfillment Services, available at <https://www.prc.gov/mail-classification-schedule>. Cost coverage information for products not appearing in Table III-8 can be found in Library Reference PRC-LR-ACR2022-7.

Money Orders is the sole Special Services product to fail to cover its attributable costs in FY 2022. Below, the Commission discusses the FY 2022 financial results for Money Orders in more detail.

b. Money Orders

(1) Introduction

In FY 2022, the Money Orders product failed to cover its attributable cost. FY 2022 was the third consecutive year that Money Orders did not generate sufficient revenue to cover its attributable cost. *See* FY 2021 ACD at 69.

(2) FY 2022 Results

In FY 2022, Money Orders had a cost coverage of 99.2 percent, an over 10 percentage point increase from the cost coverage of 88.5 percent in FY 2021. FY 2022 ACR at 46-47. The Postal Service states that although unit costs increased by 12.2 percent, unit revenue increased by 25.9 percent and unit contribution improved. *Id.* at 47. The Postal Service attributes the increase in unit contribution to price increases in Docket No. R2021-2 and Docket No. R2022-1 of 11.514 percent and 14.377 percent, respectively, as well as a reduction in debit card costs. *Id.*; Order No. 5937 at 123; Order No. 6188 at 97. The Docket No. R2021-2 and Docket No. R2022-1 price increases went into effect on August 29, 2021, and July 10, 2022, respectively. Order No. 5937 at 6; Order No. 6188 at 6. The Postal Service notes that Money Orders also received a price increase of 6.685 percent in Docket No. R2023-1, which went into effect on January 22, 2023, and which is expected to further decrease the gap between revenue and costs. FY 2022 ACR at 47; Order No. 6341 at 7, 99.

With respect to Money Orders' unit costs increasing by 12.2 percent in FY 2022, the Commission notes that this increase occurred despite the fact that the Postal Service did not incur costs related to RHB in FY 2022. The Postal Service attributes the increase in unit costs to an increase in the total attributable cost of 4.3 percent and a decrease in volume of 7.1 percent compared to FY 2021. Response to CHIR No. 3, question 1.a. The Postal Service states that Money Orders' costs are primarily due to the cost of window service activities and debit card processing fees. *Id.* question 1.b. Window service activities costs increased by 6.7 percent in FY 2022 due in large part to a 4.5 percent increase in the wage rate for window clerks. *Id.* The Postal Service notes that in FY 2022, piggybacked window service costs were 73.2 percent of total Money Orders' attributable costs and that these costs will continue to increase as wages rise. *Id.* The Postal Service further explains that supplies and services costs (*e.g.*, the manufacturing and printing of Money Orders) and product specific costs attributed to Money Orders (*e.g.*, software and compliance with the Bank Secrecy Act) increased in FY 2022 compared to FY 2021. *Id.*

The Postal Service notes that these cost increases were partially offset by an 11.7 percent decrease in unit debit card costs. *Id.* The Postal Service explains that debit card costs are the second largest contributor to Money Orders' attributable costs, and that during FY 2022, the Postal Service entered into a new payment processor contract that would ensure transactions are routed to the lowest cost processing network. *Id.*

The Postal Service states that because the attributable costs for Money Orders are primarily made up of window service costs and debit card costs, any effort to reduce costs should focus on these two cost drivers. *Id.* The Postal Service represents that it has agreed to explore initiatives to reduce window service costs by seeking opportunities to offer Money Orders more efficiently and will periodically negotiate debit card fees with debit card processing vendors. *Id.* However, the Postal Service also explains that it is challenged in its ability to reduce Money Orders' unit costs by continued volume declines. *Id.* The Postal Service states that because Money Orders have "a material amount of product specific costs," which are expected to rise with wages, declining volumes and higher product specific costs will likely cause future increases in unit costs. *Id.*

### (3) Comments on Money Orders

The Public Representative notes that the Money Orders product did not cover its attributable costs in FY 2022 although its cost coverage improved year-over-year. PR Comments at 12. He states that unit revenue, unit contribution, and unit costs for this product increased in FY 2022 while volumes declined. *Id.* at 12-13. He notes that based on the current trends for this product of revenue increases exceeding cost increases, Money Orders should fully cover its attributable costs in FY 2023. *Id.* at 13.

### (4) Commission Analysis

Money Orders provide customers with an instrument for payment of a specified sum of money, with a maximum value of \$1,000. This product reliably covered costs until FY 2016 but has exhibited inconsistent financial results in recent years. FY 2021 ACD at 70. Table III-9 shows the unit revenue, unit attributable cost, unit contribution, and cost coverage for the Money Orders product from FY 2018 through FY 2022.

**Table III-9  
Money Orders Financial Results, FY 2018–FY 2022**

Fiscal Year	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2018	190.1	175.9	14.2	108.1%
FY 2019	200.5	190.1	10.4	105.5%
FY 2020	198.9	203.6	-4.8	97.7%
FY 2021	206.0	232.8	-26.8	88.5%
FY 2022	259.4	261.6	-2.2	99.2%

Source: Library Reference PRC-LR-ACR2022-7.

As Table III-9 shows, the FY 2022 cost coverage for Money Orders was 99.2 percent, a notable increase from the cost coverage of 88.5 percent in FY 2021. Between FY 2018 and FY 2021, unit contribution and cost coverage decreased every year with FY 2022 reversing those negative trends. Money Orders' substantial improvement in FY 2022 was due

primarily to a 53.4 cent increase in unit revenue, which more than offset the 28.8 cent increase in unit attributable costs. Unit attributable costs increased year-over-year in each year between FY 2018 and FY 2022.

On October 20, 2022, the United States Postal Service Office of Inspector General (OIG) issued an audit report on Money Order trends and cost coverage with a particular focus on FY 2017 through FY 2021.<sup>89</sup> In the report, the OIG describes several challenges for the Money Orders product. These include that customers can purchase Money Orders from other entities at lower prices, which may lead to further volume declines. OIG Report No. 22-057-R23 at 1, 3. As the Postal Service explained in the Response to CHIR No. 3, volume declines make reducing unit costs difficult, as product specific costs, such as the labor costs associated with complying with the Bank Secrecy Act continue to increase. Response to CHIR No. 3, question 1.b.

In addition, the OIG highlights that window service costs are the largest cost associated with Money Orders, ranging from 47.9 percent of total Money Orders cost in FY 2017 to 55.7 percent of total Money Orders cost in FY 2021. OIG Report No. 22-057-R23 at 5. In FY 2022, window service costs increased substantially to 73.2 percent of total Money Orders cost due primarily to a 4.5 percent increase in the wage rate for window clerks despite the fact that the Postal Service did not incur costs related to RHB in FY 2022. Response to CHIR No. 3, question 1.b. Given that window service costs will continue to increase with wages, the OIG recommended that the Postal Service develop initiatives to reduce window service costs. OIG Report No. 22-057-R23 at 5. In response to the recommendation, the Postal Service agreed to explore initiatives to reduce window service costs and identify ways in which Money Orders could be more efficiently offered with a target implementation date of April 30, 2023. *Id.*

Although there was substantial improvement in the cost coverage for Money Orders in FY 2022, OIG Report No. 22-057-R23 and the Response to CHIR No. 3, question 1.b. indicate that the Postal Service may face difficulties in continuing to drive improvements in the cost coverage of Money Orders.

*The Commission finds that the FY 2022 revenue for Money Orders was not sufficient to cover attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the price of Money Orders by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Special Services class through the issuance of the FY 2023 ACD. The Commission encourages the Postal Service to continuously look for ways to reduce the unit costs of Money Orders. The Commission also directs the Postal Service to include a discussion of the initiatives identified in response to the OIG's recommendation to reduce window service costs for Money Orders, including the current status of each initiative, in the FY 2023 ACR.*

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<sup>89</sup> United States Postal Service, Office of Inspector General, Report No. 22-057-R23, U.S. Postal Service Money Order Trends and Cost Coverage, October 20, 2022, available at <https://www.uspsig.gov/sites/default/files/reports/2023-01/22-057-R23.pdf> (OIG Report No. 22-057-R23).

## D. Fully Compensatory Class

### 1. First-Class Mail

#### a. Introduction

As a class, First-Class Mail covered its attributable costs in FY 2022 and had an overall cost coverage of 210.7 percent, which is an increase in cost coverage compared to 193.7 percent in FY 2021.

#### b. FY 2022 Results

Furthermore, each product within First-Class Mail covered its costs for FY 2022, which represents an improvement over FY 2021 when First-Class Mail Flats did not cover its attributable costs. Table III-10 provides the cost coverage for each First-Class Mail product as well as the overall class for the last 5 fiscal years.

**Table III-10**  
**First-Class Mail Cost Coverage, FY 2018–FY 2022**

Fiscal Year	First-Class Mail Overall	Single-Piece Letters/Postcards	Presorted Letters/Postcards	Flats	Outbound Single-Piece International	Inbound Letter Post
FY 2018	205.1%	160.7%	309.8%	123.2%	142.0%	83.8%
FY 2019	194.3%	156.1%	292.9%	109.0%	145.7%	78.5%
FY 2020	197.9%	163.3%	281.0%	100.2%	128.3%	83.3%
FY 2021	193.7%	148.9%	279.9%	98.9%	152.8%	122.2%
FY 2022	210.7%	154.4%	307.0%	108.8%	171.1%	128.0%

Source: Library Reference PRC-LR-ACR2022-3.

#### c. Comments

The Public Representative finds that First-Class Mail products overall covered their attributable costs in FY 2022. PR Comments at 5.

NAPM states that it would “like to see the Postal Service provide a description of initiatives specific to First-Class Mail Flats” since in many cases they “are processed separately from other types of flats, largely due to the service standards, and may have unique cost drivers[;] [hence,] [i]t is unclear how many of the initiatives laid out by the Postal Service for FY2023 apply to First-Class Mail operations.” NAPM Comments at 14. NAPM states that “there is a significant opportunity to reduce First-Class Mail Flats operational costs by making changes that move more pieces into the presort/commingle environment[;]” and it “encourages the Postal Service to work with the mailing industry to identify existing barriers and potential incentives that could be developed to move more [First-Class Mail] Flats into presort and reduce operating costs for those flats.” *Id.* As noted in Section

III.C.1.a.(4), NAPM encourages the Postal Service to restart the Headquarters cross-functional flats team as described above. *Id.* at 13; *see* Section III.C.1.a.(4), *supra*.

NPPC identifies specific First-Class Mail products for which it alleges that reported costs in FY 2022 are misleading due to the exclusion of RHB normal costs.<sup>90</sup> NPPC notes that total First-Class Mail revenue increased in FY 2022 but asserts that this “occurred solely due to rate increases, as the Postal Service failed to encourage volume growth or even retention.” NPPC Comments at 12. NPPC highlights continued volume declines for First-Class Mail in FY 2022, including for Single-Piece Letters/Postcards, Presorted Letters/Postcards (including the 5-Digit Automation Letters price category), and First-Class Flats. *Id.* at 11-12. NPPC asserts that “[p]resort [m]ail continues to be the most efficiently prepared and low-cost mail in the system[,]” and “[t]he Postal Service should do more to encourage it to remain in the mailstream, not to drive it out through price increases or cuts in service standards.” *Id.* at 12.

PostCom, noting relatively high cost coverage levels for products such as First-Class Letters/Postcards, argues that users of these products are bearing an undue burden as a result of substantial rate increases, and suggests that “as the rate levels increasingly depart from the costs incurred in providing the[se] products, the question arises as to whether the Postal Service is maintaining a just and reasonable rate schedule.” PostCom Comments at 2.

#### d. Commission Analysis

The Commission finds that all First-Class Mail products covered their attributable costs in FY 2022.

As noted in Chapter I, there are significant challenges facing the Postal Service associated with the processing and delivery of flat-shaped mailpieces. The Commission is currently conducting a study concerning Flats operations in order to “comprehensively identify the causes of inefficiencies in the collection, sorting, transportation, and delivery of Flats” and allow the Commission to “quantify the effects of volume trends, investments decisions, excess capacity, and operational inefficiencies of the Postal Service on the direct and indirect costs of the Postal Service that are attributable to Flats.” *See* Chapter I, *supra*. The Commission findings must be submitted no later than April 6, 2023. *Id.* In addition, the Commission encourages the Postal Service to restart the Headquarters cross-functional flats team.

The Commission also noted that, to the extent that commenters discuss concerns related to the treatment of RHB normal costs in the FY 2022 cost data, those comments fall outside the scope of this proceeding. *See id.*

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<sup>90</sup> NPPC Comments at 4-5. These include First-Class Presorted Letters/Postcards, First-Class Single-Piece Letters/Postcards, and First-Class Flats. *Id.*

*The Commission encourages the Postal Service in future rate adjustment dockets to take into consideration the concerns expressed by mailers with respect to the effect of recent rate increases, particularly in regard to moving more mailpieces into presort categories.*

e. Other Issues — First-Class Mail Non-Machinable Surcharge

In the FY 2021 ACD, the Commission addressed a request by the Greeting Card Association (GCA) that the Commission undertake further review pursuant to 39 C.F.R. § 3030.126(j) of the Commission’s approval of a 50 percent increase in the non-machinable surcharge for First-Class Mail Single-Piece Letters in Docket No. R2021-2. FY 2021 ACD at 72-75. The Commission balanced the relevant statutory objectives and factors from 39 U.S.C. § 3622(b) and (c) cited by GCA. These included objectives 2 (stable and predictable rates) and 8 (just and reasonable schedule for rates and classifications), as well as factor 3 (effect of rate increases). 39 U.S.C. § 3622 (b)(2), (b)(8), (c)(3). The Commission ultimately affirmed its decision from Docket No. R2021-2, concluding that there was no basis for finding the non-machinable surcharge non-compliant with the relevant statutory provisions.<sup>91</sup>

In its comments in response to the Postal Service’s FY 2022 ACR, GCA continues to express concerns over the increase in the non-machinable surcharge for Single-Piece First-Class Letters. GCA contends that the non-machinable surcharge primarily affects personal correspondence. GCA Comments at 2-4. GCA invokes 39 U.S.C. § 101(a), which provides that “[t]he Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the *personal*, educational, literary, and business correspondence of the people.” (emphasis added). GCA argues that “[w]hen a postal rate impinges on personal correspondence alone, as the surcharge does, this basic obligation is not being observed.” GCA Comments at 3. GCA also continues to invoke objective 8 (39 U.S.C. § 3622(b)(8)), asserting that:

If one looks realistically at *who the customer is*—that is, if one does not define the customer solely by which operations (s)he requires the Postal Service to perform, but also considers the uses (s)he makes of the mail—it seems evident that the personal correspondence customer is being subjected to an unjust rate.

GCA Comments at 3-4 (emphasis on original).

Furthermore, GCA argues that “[a] tariff in which [p]ersonal [c]orrespondence is targeted by a surcharge bearing little relation to the cost the Commission accepts as justifying it is not an example of reasonably designed pricing.” *Id.* at 3. GCA asserts that in the FY 2022 ACR, there has been a large decrease in the reported workshare-related mail processing cost for the Non-machinable Metered Letters price category, which “suggests that during the period when the non-machinable surcharge has been doubled, the cost of processing

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<sup>91</sup> *Id.* For information related to the First-Class Mail non-machinable surcharge’s consistency with objectives 2 and 8 and factor 3, see FY 2021 ACD at 73-75.

non-machinable single-piece letters may have been substantially overestimated.” *Id.* at 4-5. GCA argues that “[s]ince the Commission found processing cost a significant factor in approving that surcharge, it seems necessary for the Commission to inquire into how this apparent overestimate came to occur and to view the current non-machinable surcharge (not to speak of any future increases in it) with considerable skepticism.” *Id.* at 5.

As an initial matter, the Commission does not accept the premise that the non-machinable surcharge “targets” “personal correspondence.” In FY 2022, non-machinable letters, meaning letters that could not be sorted on mail processing equipment due to irregular physical characteristics related to weight, rigidity, shape, or readability, and thus required manual handling, made up less than 1 percent of either stamped or metered Single-Piece First-Class Mail volume.<sup>92</sup> Thus, no matter how one defines the portion of the First-Class mailstream constituting “personal correspondence,” the majority of it is machinable and hence not subject to the non-machinable surcharge. Furthermore, First-Class Mail is sealed against inspection, and the Postal Service would be unable to target the contents of a First-Class mailpiece as personal correspondence.

Moreover, in terms of assessing the cost to the Postal Service of handling non-machinable letters, the Commission finds that the relevant consideration is not simply the change in the reported unit processing cost for Non-machinable Metered Letters from year to year, but rather the difference between the total reported cost for handling Non-machinable Metered Letters compared to the total reported cost for handling Machinable Metered Letters. The only difference between these price categories is machinability, and the difference between them represents the cost of handling a non-machinable letter compared to a machinable letter. For FY 2022, the reported unit mail processing cost for Non-machinable Metered Letters was 31.099 cents higher than for Machinable Metered Letters.<sup>93</sup> The reported unit delivery cost for Non-machinable Metered Letters was 13.555 cents higher than for Machinable Metered Letters.<sup>94</sup> The reported unit collection cost was the same for both price categories.<sup>95</sup> Thus, in total in FY 2022, Non-machinable Metered Letters cost on average 44.654 cents more to process and deliver than Machinable Metered Letters.<sup>96</sup> The non-machinable surcharge is currently 40 cents.<sup>97</sup> This means that even with recent increases in the non-machinable surcharge, non-machinable letters still cost more to

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<sup>92</sup> Library Reference USPS-FY22-4, December 29, 2022, ZIP folder “FY22.4.MD.BD.Files.zip,” subfolder “Other MD BDs,” Excel file “FY2022 FCM BD.xlsx,” tab “A-1 Single-Piece Letters,” cells I12, I13, I20, I21.

<sup>93</sup> Library Reference USPS-FY22-10, December 29, 2022, ZIP folder “FY22.10.Ltr.Model.Files.zip,” Excel file “USPS-FY22-10 FCM Letters.xlsx,” cells B11, B12.

<sup>94</sup> Library Reference USPS-FY22-10, ZIP folder “FY22.10.Ltr.Model.Files.zip,” Excel file “USPS-FY22-10 FCM Letters.xlsx,” cells D11, D12.

<sup>95</sup> Library Reference USPS-FY22-10, ZIP folder “FY22.10.Ltr.Model.Files.zip,” Excel file “USPS-FY22-10 FCM Letters.xlsx,” cells E11, E12.

<sup>96</sup> For FY 2021, Non-machinable Metered Letters cost on average 50.553 cents more to process and deliver than Machinable Metered Letters. Docket No. ACR2021, Library Reference USPS-FY21-10, December 29, 2021, ZIP folder “FY21.10.Files.zip,” Excel file “USPS-FY21-10 FCM Letters.xlsx,” cells B11, B12, D11, D12. Prior to FY 2021, the Postal Service did not report separately on Non-machinable Metered Letters, so there are no relevant data to compare.

<sup>97</sup> In Order No. 6341, the Commission approved the current non-machinable surcharge of 40 cents. *Compare* Single-Piece Machinable rates to Single-Piece Non-machinable rates, Order No. 6341, Attachment at 2-3. When GCA first raised this issue, the non-machinable surcharge was 30 cents. *Compare* Single-Piece Machinable rates to Single-Piece Non-machinable rates, Order No. 5937, Attachment at 2-3.

process and deliver than the Postal Service recovers after the non-machinable surcharge is applied. This undermines GCA's contention that the non-machinable surcharge "bear[s] little relation to the cost the Commission accepts as justifying it." GCA Comments at 3. Indeed, based on this analysis, the surcharge appears closely related to the cost of non-machinability, with the small difference between the two benefitting the non-machinable letters customers.

More significantly, however, while the additional cost of handling non-machinable letters was certainly relevant to the Commission's prior determinations with respect to the non-machinable surcharge, it was far from the only consideration. As the Commission has explained, the modified system of ratemaking which the Commission adopted in Docket No. RM2017-3 was specifically designed to properly balance all of the statutory objectives and factors from 39 U.S.C. § 3622(b) and (c). Order No. 5763 at 260. As noted above, the Commission balanced certain objectives and factors raised by GCA related to the non-machinable surcharge. FY 2021 ACD at 73-75.

GCA continues to maintain that the non-machinable surcharge is excessive and is targeted at "the personal correspondence customer;" thus, it is an unjust rate and inconsistent with objective 8. GCA Comments at 3-4. As demonstrated above, however, the non-machinable surcharge can hardly be said to be excessive in relation to the actual costs incurred by the Postal Service in processing non-machinable letters; nor can it be said to target personal correspondence, since the majority of personal correspondence is machinable and not subject to the surcharge. Moreover, there is no way to know with certainty if the majority of mail subject to the surcharge is actually personal correspondence since First-Class Mail is, by definition, sealed against inspection.

With respect to GCA's invocation of 39 U.S.C. § 101(a), the Commission's role in this proceeding is to determine "whether any rates or fees in effect...were not in compliance with applicable provisions of [chapter 36 of the United States Code] (or regulations promulgated thereunder)." 39 U.S.C. § 3653(b)(1). Section 101(a) does not fall within this scope of review of this proceeding. At most, section 101(a) could be considered as falling under factor 14 of the statutory objectives and factors for the Market Dominant ratemaking system ("the policies of this title," 39 U.S.C. § 3622(c)(14)), but factor 14 is just one among many objectives and factors to be considered in conjunction with each other. The Commission does not find the general statement of policy contained in section 101(a) to outweigh the Commission's detailed findings with respect to the other objectives and factors, including objectives 2 and 8, as well as factor 3.

# CHAPTER IV. COMPETITIVE PRODUCTS

## A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2022 were not in compliance with 39 U.S.C. § 3633, which:

- Prohibits subsidization of Competitive products by Market Dominant products: 39 U.S.C. § 3633(a)(1)
- Requires that each Competitive product cover its attributable cost: 39 U.S.C. § 3633(a)(2)
- Requires that, collectively, Competitive products cover an appropriate share of the Postal Service's institutional costs: 39 U.S.C. § 3633(a)(3)

The principal FY 2022 findings for Competitive products are:

- Revenues for Competitive products as a whole exceeded incremental costs. Thus, Competitive products were not subsidized by Market Dominant products during FY 2022, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for five Competitive products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), Competitive International Ancillary Services, as well as two NSAs — Priority Mail Contract 543 and Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5.
- Collectively, Competitive products satisfied the appropriate share requirement of 39 U.S.C. § 3633(a)(3) during FY 2022.

## **B. Cross-Subsidy Provision: 39 U.S.C. § 3633(a)(1)**

39 U.S.C. § 3633(a)(1) requires that Competitive products not be subsidized by Market Dominant products. To determine compliance, the Commission uses the incremental cost test, which calculates the collective costs incurred by Competitive products, and compares those costs to the collective revenue generated by Competitive products. As long as the revenue from Competitive products exceeds those products' incremental costs, the Commission can conclude that no cross-subsidization has occurred.<sup>98</sup>

Because the collective incremental costs of Competitive products are greater than the sum of the attributable cost of each product, using collective incremental costs raises the Competitive product cost floor when testing for cross-subsidization.<sup>99</sup> Therefore, the incremental cost model applied at Competitive products' group level provides a more rigorous test for determining compliance with 39 U.S.C. § 3633(a)(1) than the attributable cost coverage requirement of 39 U.S.C. § 3633(a)(2), which is applied at the product level.

Several commenters conclude that Competitive products were not subsidized by Market Dominant products in FY 2022, complying with 39 U.S.C. § 3633(a)(1).<sup>100</sup> To the extent that commenters challenge Competitive product cost attribution,<sup>101</sup> the Commission continues to note that the purpose of the ACD is to determine compliance with existing regulations using established methodology. *See* FY 2021 ACD at 77; FY 2020 ACD at 69-70. Recommendations for improving specific cost attribution methodologies are appropriately addressed in dockets considering changes to those methodologies.<sup>102</sup>

In FY 2022, the incremental costs of Competitive products were \$20.667 billion and the total revenues of Competitive products were \$33.129 billion.<sup>103</sup> Accordingly, in FY 2022, revenues from Competitive products exceeded incremental costs.

*The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2022.*

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<sup>98</sup> See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

<sup>99</sup> Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two Through Twenty-Five), January 27, 2010, at 4-5 (Order No. 399).

<sup>100</sup> See, e.g., Pitney Bowes Comments at 4-5; PR Comments at 24; NAPM Comments at 8.

<sup>101</sup> See, e.g., TPA Comments at 1 ("According to TPA's 2022 Postal Pricing Primer, "network travel" costs are correlated with increased package deliveries despite the agency's refusal to attribute even a small share of these costs to parcels. Similar patterns can be seen across cost components evaluated by the USPS.").

<sup>102</sup> The Commission's regulations permit any interested person to submit a petition to initiate a proceeding to "improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's annual periodic reports to the Commission[.]" 39 C.F.R. § 3050.11(a).

<sup>103</sup> See Library Reference PRC-LR-ACR2022-1, Excel file "FY22 Summary\_NPLR-1.xlsx," tab "Appendix A (Incremental Costs)."

## C. Product Cost Coverage Provision: 39 U.S.C. § 3633(a)(2)

39 U.S.C. § 3633(a)(2) requires that the revenue for each Competitive product cover its attributable cost. Below, the Commission discusses the FY 2022 financial performance for five separate Competitive product groupings:

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of NSAs
- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs
- Competitive nonpostal services

### 1. Competitive Domestic Products with Rates of General Applicability

In FY 2022, there were 12 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; USPS Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;<sup>104</sup> Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

*The Commission finds that, in FY 2022, every Competitive domestic product with rates of general applicability covered its attributable cost<sup>105</sup> and, thereby, satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).*

### 2. Competitive Domestic Products Consisting of NSAs

As shown below in Figure IV-1, in FY 2022, there were 575 Competitive domestic products consisting of NSAs.<sup>106</sup> Pursuant to 39 U.S.C. § 3633(a)(2), the Commission finds that all but one Competitive domestic NSA covered their attributable costs in compliance with this statutory requirement. The non-compliant Competitive domestic NSA in question, Priority Mail Contract 543, is being renegotiated with higher prices. FY 2022 ACR at 92. Although

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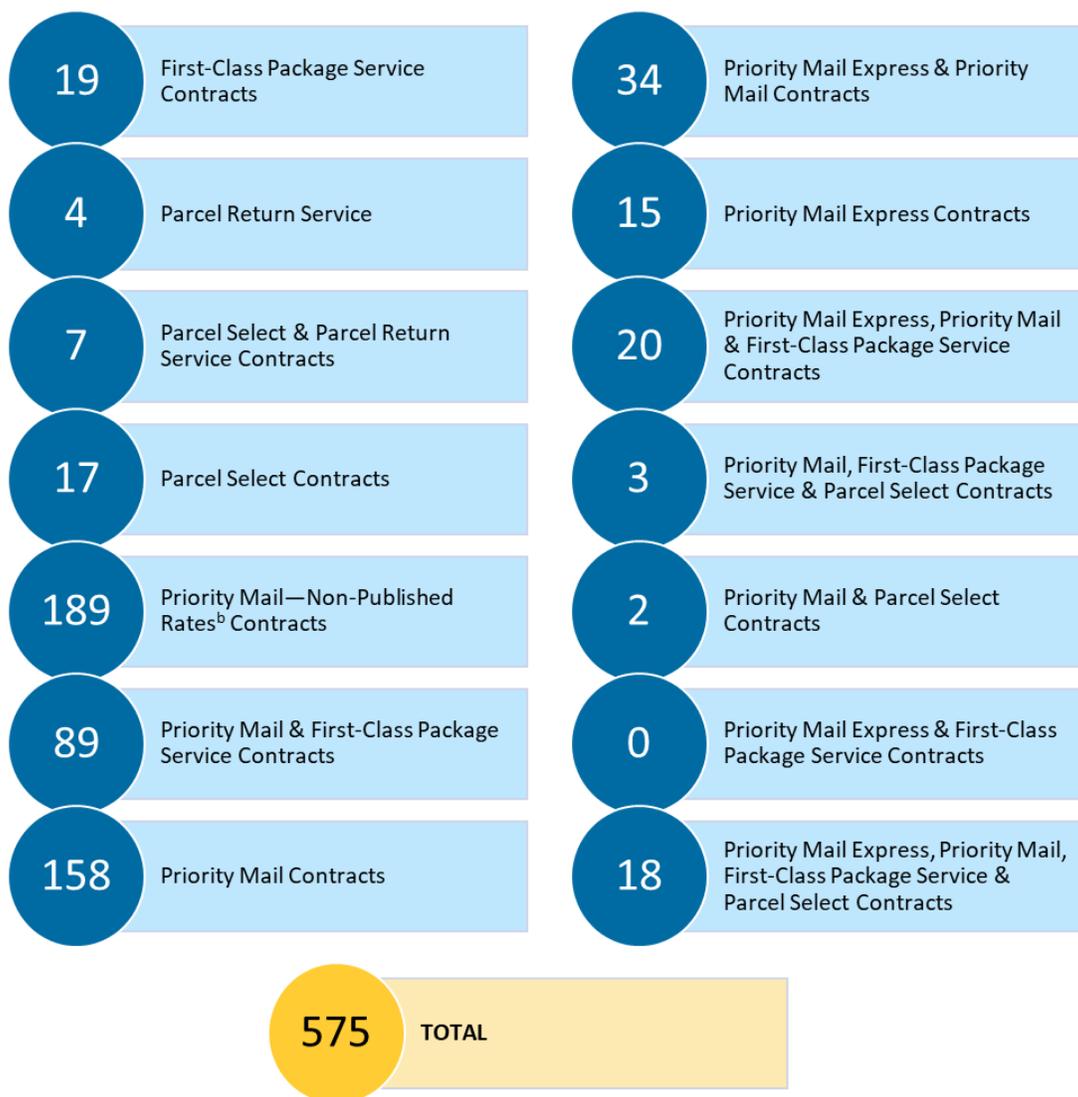
<sup>104</sup> The Competitive Ancillary Services product consists of the following services: Adult Signature, Package Intercept Service, Premium Data Retention and Retrieval Service, and Label Delivery Service. See MCS § 2645, available at <https://www.prc.gov/mail-classification-schedule>.

<sup>105</sup> See Library Reference PRC-LR-ACR2022-1, Excel file "FY22 Summary\_NPLR-1.xlsx," tab "Total All Mail Appendix A."

<sup>106</sup> The 575 products include agreements that were extended via amendment.

four additional agreements had individual components that failed to cover attributable costs, each agreement covered its total attributable costs.<sup>107</sup>

**Figure IV-1  
Competitive Domestic NSA Products in Effect During FY 2022**



<sup>a</sup> With the exception of NSAs entered into under the Priority Mail—Non-Published Rates (Priority Mail—NPR) product, each Competitive domestic NSA is a separate product.

<sup>b</sup> The Priority Mail—NPR product allows the Postal Service to enter into Priority Mail NSAs without filing the individual agreements with the Commission for pre-implementation review of each. Such contracts must comply with Commission classification and regulatory requirements, including preapproved pricing formulas, minimum cost coverage, and documentation.

Source: Library Reference USPS-FY22-NP27, December 29, 2022.

<sup>107</sup> See Response to CHIR No. 6, question 2; Library Reference USPS-FY22-NP36, January 27, 2023.

The Commission encourages the Postal Service to fully account for all of its active NSAs and remove inactive NSAs from the Competitive product list. The Postal Service continues to report financial data for NSAs utilizing observed data instead of projected data.<sup>108</sup> The Commission notes that the Postal Service should increase the use of the most up-to-date observed data to estimate the costs of NSAs. The use of accurate data is essential to ensuring agreements are, and remain, in compliance with 39 U.S.C. § 3633(a)(2).

Multiple CHIRs were issued in this docket pertaining to domestic NSA Competitive products to clarify data. *See, e.g.*, CHIR No. 4. The overall themes involved the need for further clarification of data due to insufficient source notes; reconciliation of values across various spreadsheets; and inquiries on several of the cost models that included new workbooks. *See, e.g.*, CHIR No. 4, questions 5-10; CHIR No. 7, questions 8-10.

The Commission encourages the Postal Service to continue to improve the explanation of its NSA financial materials provided as part of its ACR. In particular, a detailed explanatory summary identifying any novel file, terminology, and methodology (or how an existing methodology was adapted or updated to suit current circumstances) should accompany all new workbooks filed in future ACRs to help facilitate and expedite the Commission's review process by minimizing the need for additional CHIRs.

The need for additional CHIRs could be minimized by ensuring that the Commission has up-to-date records on active NSAs. The Commission regularly needs to resolve discrepancies between the list of NSAs for which the Postal Service reports financial performance in the ACR and the list of NSAs for which the Commission was expecting financial data to be filed. Typical causes for such discrepancies have included the Postal Service's failure to file termination notices with the Commission, failure to file termination notices in the appropriate docket, and typographical errors in lists of docket numbers. *See generally, e.g.*, Docket Nos. CP2013-45 and CP2020-52. To identify and correct such discrepancies more quickly, and to reduce the incidences of such discrepancies in future ACR filings, the Commission will require the Postal Service to file a quarterly summary spreadsheet listing active NSAs and noting all extensions, expirations, and early terminations. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.

As it relates to new workbooks included by the Postal Service in Library Reference USPS-FY22-NP27 that disaggregated costs for Priority Mail, Priority Mail—Non-Published Rates, & Parcel Select to finer levels, the Postal Service generally mentioned these new files in the preface to that library reference but, as described above, did not adequately explain the methodology used and how it was adapted. The Commission finds that the contents of the new files do not alter the final results of the FY 2022 cost files. Therefore, the Commission concludes that these new files do not represent a change in analytical principles and

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<sup>108</sup> In the FY 2020 ACD, the Commission noted that "utilization of actual, rather than projected, data [would] lead to improved accuracy of the cost compliance calculations for these products." FY 2020 ACD at 71 n.128.

instead would be considered a change in quantification technique. The Commission reminds the Postal Service that, in accordance with 39 C.F.R. § 3050.2(a), the Postal Service is obligated, in its periodic reporting, to identify any input data or quantification techniques that changed from the prior year—including, but not limited to, the addition or deletion of files or tabs in library references.

*The Commission finds that Priority Mail Contract 543 was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. The Commission directs the Postal Service to renegotiate higher prices for that contract or terminate the contract.*

*To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.*

### 3. Competitive International Products with Rates of General Applicability

Eleven Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; International Priority Airmail (IPA); International Surface Air Lift (ISAL); Outbound Single-Piece First-Class Package International Service; Inbound Letter Post Small Packets and Bulky Letters; Inbound Parcel Post (at UPU rates); International Direct Sacks—Airmail M-Bags; IMTS—Outbound; IMTS—Inbound; and International Ancillary Services.

The Commission finds that three of these products, IMTS—Inbound, IMTS—Outbound, and International Ancillary Services, did not satisfy 39 U.S.C. § 3633(a)(2).<sup>109</sup>

- a. International Money Transfer Service—Inbound
  - (1) FY 2022 Results

In FY 2022, the IMTS—Inbound product<sup>110</sup> did not cover its attributable cost. FY 2022 ACR at 95. The product likewise did not cover costs in FY 2021 and has been non-compensatory for more than a decade, except in FY 2013 when the Commission did not have sufficient information to determine its cost coverage.<sup>111</sup> The Postal Service reports that the IMTS—

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<sup>109</sup> See FY 2022 ACR at 93-97. See also Library Reference USPS-FY22-NP2, December 29, 2022.

<sup>110</sup> IMTS—Inbound provides a service to designated operators of foreign countries for payment of money orders to recipients in the United States. See MCS § 2625.

<sup>111</sup> See FY 2012 ACD at 165; FY 2013 ACD at 84 (finding there was insufficient information to permit the Commission to determine whether the IMTS—Inbound product covered its attributable cost); FY 2014 ACD at 75; FY 2015 ACD at 84; FY 2016 ACD at 83; FY 2017 ACD at 86; FY 2018 ACD at 108; FY 2019 ACD at 78; FY 2020 ACD at 73; FY 2021 ACD at 81.

Inbound product's reportable transactions and revenues declined between FY 2021 and FY 2022. FY 2022 ACR at 97. The product earns revenue only from commissions paid by the foreign postal operator (FPO) that issued the IMTS—Inbound money order, and some agreements do not include a commission.<sup>112</sup> The Postal Service acknowledges that the number of transactions were derived differently in FY 2022 than in FY 2021.<sup>113</sup> In addition, the Postal Service reports that “[i]n FY 2022, there were increased costs in window services.” FY 2022 ACR at 95. Both of these factors affected the product's cost coverage. *Id.*

As the Commission approved in Order No. 2825, costs are attributed to IMTS—Inbound through a hybrid methodology that uses a combination of IOCS costs to develop aggregate IMTS costs and a distribution of IMTS costs to IMTS—Inbound and IMTS—Outbound based on transaction volume.<sup>114</sup> The Postal Service states that “IMTS aggregate cost estimates developed under either the strict IOCS or hybrid methods are subject to variation and wide confidence intervals” because there are few IOCS tallies due to IMTS's low volume.<sup>115</sup> The Postal Service states that in FY 2022 there were only seven IOCS tallies, two of which were for the IMTS—Inbound product. FY 2022 ACR at 95. The Postal Service represents that “achieving a robust number of IMTS tallies is expensive and unrealistic,” that “the hybrid model continues to be an improved costing method for IMTS compared to the strict IOCS method,” and that it “has not identified any alternative costing methods that could result in further improvements.” Response to CHIR No. 6, questions 1.a., 1.c. The Postal Service asserts that one clear benefit of the hybrid model is that “it ensures that separate volume variable costs are estimated for both the separate MCS products – IMTS—Outbound and IMTS—Inbound.” *Id.* question 1.a.

The Postal Service states that it has attempted to address cost coverage issues by terminating or modifying IMTS—Inbound agreements. FY 2022 ACR at 96. For example, it highlights that it has taken steps towards terminating agreements with 13 FPOs.<sup>116</sup> In its Response to CHIR No. 11, the Postal Service confirms that it has not received any inbound international postal money orders since September 2022. Response to CHIR No. 11, question 2.

## (2) Comments

No comments were filed related to IMTS—Inbound.

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<sup>112</sup> IMTS—Inbound consists only of paper international postal money orders issued by certain FPOs. See FY 2022 ACR at 97. See also Response to CHIR No. 7, question 14.a.; Library Reference USPS-FY22-NP37.

<sup>113</sup> See Response to CHIR No. 4, question 4.a.; Library Reference USPS-FY22-NP34, January 20, 2023.

<sup>114</sup> See Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015, at 10-12 (Order No. 2825).

<sup>115</sup> Response to CHIR No. 6, question 1.b. See FY 2022 ACR at 95 (citing Order No. 2825).

<sup>116</sup> See FY 2022 ACR at 96-97. See also United States Postal Service, *Postal Bulletin* No. 22604, IMM Revision: Termination of International Postal Money Order Service, August 11, 2022, available at [https://about.usps.com/postal-bulletin/2022/pb22604/html/updt\\_002.htm](https://about.usps.com/postal-bulletin/2022/pb22604/html/updt_002.htm) (*Postal Bulletin* No. 22604); United States Postal Service, *Postal Bulletin* No. 22611, IMM Revision: Termination of International Postal Money Order Service for Trinidad and Tobago, November 17, 2022, available at [https://about.usps.com/postal-bulletin/2022/pb22611/html/updt\\_005.htm](https://about.usps.com/postal-bulletin/2022/pb22611/html/updt_005.htm) (*Postal Bulletin* No. 22611).

### (3) Previous ACD Directives

In its FY 2021 ACD, the Commission encouraged the Postal Service to continue its efforts towards terminating remaining agreements and directed the Postal Service to report the details of any agreement's modifications, including the impact on the IMTS—Inbound product's reportable transactions and revenues, as part of its filing in the instant docket. *See* FY 2021 ACD at 83. The Commission also directed the Postal Service to provide data on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2022, to the extent possible, as part of its FY 2022 ACR filing. *Id.* The data were to include details such as country of origin, number of paper and electronic money orders, whether they were issued by an FPO or other financial institution, the number of money orders cashed at Postal Service retail windows or at U.S. banks, and whether a fee or a commission was paid to the Postal Service. *Id.*

The Postal Service complied with these directives and provided these data with the FY 2022 ACR. FY 2022 ACR at 97; *see* Library Reference USPS-FY22-NP2. The Postal Service did not provide information on money orders issued by other financial institutions because "IMTS—Inbound consists only of paper international postal money orders issued by certain foreign postal operators." FY 2022 ACR at 97.

### (4) Commission Analysis

The Commission commends the Postal Service's progress in terminating IMTS—Inbound agreements, including the latest termination of agreements with 13 FPOs that were announced or took effect in FY 2022.<sup>117</sup> The Commission notes that as of January 2023, only Belize and Peru may issue international postal money orders destined for the United States.<sup>118</sup>

The Commission acknowledges the decreased number of reportable transactions that resulted in lower revenue in FY 2022 and notes that this decrease did not result in a decrease in the proportion of total IMTS costs distributed to the IMTS—Inbound product based on the approved methodology, which apportions total IMTS costs based on IMTS—Inbound and IMTS—Outbound volume.<sup>119</sup> However, the Commission reaffirms its conclusion that the approved methodology represents "a reasonable trade-off between the increased cost of expanded IOCS sampling to more reliably estimate attributable costs...."<sup>120</sup> The Commission notes that the low recorded revenue, coupled with a disproportionate increase in cost, results in IMTS—Inbound failing to achieve cost coverage.<sup>121</sup>

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<sup>117</sup> *See* FY 2022 ACR at 96-97. *See also* *Postal Bulletin* No. 22604; *Postal Bulletin* No. 22611.

<sup>118</sup> *See* February 10 Response to CHIR No. 10, question 1.b. (citing United States Postal Service, *Mailing Standards of the United States Postal Service*, International Mail Manual, January 22, 2023, Exhibit 371.2, available at [https://pe.usps.com/text/imm/immc3\\_018.htm](https://pe.usps.com/text/imm/immc3_018.htm)).

<sup>119</sup> This is due to the observed decrease in IMTS—Outbound pieces noted below.

<sup>120</sup> Order No. 2825 at 10-11. *See* Response to CHIR No. 6, question 1.a. (quoting Order No. 2825 at 10-11).

<sup>121</sup> *See* FY 2022 ACR at 95. *See also* Response to CHIR No. 4, question 4; Library Reference USPS-FY22-NP34.

The Commission finds useful the additional data that the Postal Service provided in response to the FY 2021 ACD directives on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2022 as part of this filing.

*The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product during FY 2023. Should the progress towards this goal include modifications rather than terminations of international postal money order agreements, the Commission directs the Postal Service to report the details of any agreement's modifications, including the impact on the IMTS—Inbound product's reportable transactions and revenues, as part of its FY 2023 ACR filing.*

*The Commission also directs the Postal Service to provide data on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2023 as part of its FY 2023 ACR filing. These data shall include additional details, such as country of origin, number of paper and electronic money orders, and information on whether they were issued by an FPO or other financial institution (if any). These data shall also include information on the number of money orders cashed at Postal Service retail windows and those cashed at U.S. banks.*

b. International Money Transfer Service—Outbound  
(1) FY 2022 Results

In FY 2022, the IMTS—Outbound product<sup>122</sup> did not cover its attributable cost. FY 2022 ACR at 95. This product also did not cover its attributable cost in FY 2021. FY 2021 ACD at 86. In addition, this product has been compensatory in only 4 fiscal years during the last decade.<sup>123</sup>

The Postal Service reports an increase in window services costs for the entire IMTS product in FY 2022, but it again notes that the hybrid costing methodology for distributing IMTS costs to IMTS—Outbound and IMTS—Inbound approved in Order No. 2825 still results in cost variation. FY 2022 ACR at 95; *see* Order No. 2825 at 10-11.

The Postal Service notes that prices in the first quarter of FY 2022 predate the 15.8 percent increase for IMTS—Outbound implemented in January 2022.<sup>124</sup> In addition, the Postal Service highlights that it increased prices for IMTS—Outbound by about 305 percent in July

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<sup>122</sup> IMTS—Outbound enables customers in the United States to make payments or transfer funds to individuals or firms in foreign destinations. *See* MCS § 2620.

<sup>123</sup> The IMTS—Outbound product did not cover its attributable cost in FY 2013, FY 2014, FY 2015, FY 2017, FY 2020, and FY 2021. *See* FY 2013 ACD at 84; FY 2014 ACD at 75; FY 2015 ACD at 84; FY 2017 ACD at 86; FY 2020 ACD at 75; FY 2021 ACD at 86. It covered its attributable cost only in FY 2012, FY 2016, FY 2018, and FY 2019. *See* FY 2012 ACD at 165; FY 2016 ACD at 83; FY 2018 ACD at 104; FY 2019 ACD at 77.

<sup>124</sup> FY 2022 ACR at 95 (citing Docket No. CP2022-22, Order Approving Changes in Rates of General Applicability for Domestic Competitive Products, December 21, 2021, at 4 (Order No. 6071)).

2022, which it states “should lead to improvements in the financial performance of IMTS-Outbound.”<sup>125</sup>

## (2) Comments

Only the Public Representative commented on the IMTS—Outbound product, noting that “[i]n response to the Commission’s directive in FY 2021 ACD (at 86) to address cost coverage, the Postal Service increased prices for IMTS-Outbound by about 305 percent in July 2022.” PR Comments at 25.

## (3) Previous ACD Directive

As part of the FY 2021 ACD, the Commission directed the Postal Service to propose price increases for the two components of the IMTS—Outbound product that more adequately reflect the impact that decreases in IMTS—Inbound transactions have on the proportions of total IMTS costs distributed to International Money Orders and Electronic Money Transfers, in its next request to adjust prices of general applicability for Competitive products. FY 2021 ACD at 86.

As noted by the Public Representative, the Postal Service complied with this directive in Docket No. CP2022-62 by increasing prices for IMTS—Outbound by about 305 percent. Order No. 6195 at 3.

## (4) Commission Analysis

The Commission observes a substantial decrease in IMTS—Outbound pieces from FY 2021 to FY 2022.<sup>126</sup> However, the magnitude of the decrease was not matched by an equally substantial decrease in volume-variable cost. *See id.* This underscores the shortcomings of the hybrid costing methodology and the Postal Service’s statement that “IMTS aggregate cost estimates developed under either the strict IOCS or hybrid methods are subject to variation and wide confidence intervals.”<sup>127</sup>

The Commission notes an improvement in IMTS—Outbound cost coverage from FY 2021 to FY 2022 and acknowledges the Postal Service’s assertion that the 15.8 percent price increase for IMTS—Outbound that took effect in January 2022 was not in effect for the first quarter of FY 2022. However, the Commission points out that the 305 percent price increase for IMTS—Outbound, which took effect in July 2022, was in effect for most of the fourth quarter of FY 2022. While the Commission agrees that this price increase should have a positive impact on the product’s cost coverage in FY 2023, it is difficult to predict its impact given the high variation in IMTS costs.

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<sup>125</sup> FY 2022 ACR at 96 (citing Docket No. CP2022-62, Order Approving Changes in Rates and Classifications of General Applicability for Competitive Products, June 8, 2022 (Order No. 6195)).

<sup>126</sup> *See* Docket No. ACR2021, Library Reference USPS-FY21-NP2, ICRA Core files, Excel file “Reports Unified.xlsx,” tab “A pages (c)”; Library Reference USPS-FY22-NP2, ICRA Core files, Excel file “Reports.xlsx,” tab “A pages (c).”

<sup>127</sup> Response to CHIR No. 6, question 1.b. The Postal Service further notes that “the hybrid methodology does introduce stability to the estimate of volume variable costs for Sure Money that results in a material reduction in the variation of the cost estimate for IMTS – Outbound. The primary source of the reduction stems from applying a fixed transaction time to all Sure Money transactions. However, significant variation in IMTS product costs remain because of its reliance on a less than robust number of IOCS tallies that historically experience large percentage changes annually.” *Id.*

*The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. The Commission encourages the Postal Service to monitor the impact of the price increases that took effect in July 2022 on the product based on information available before the Postal Service files its next request to adjust prices of general applicability for Competitive products and encourages the Postal Service to request further price increases as necessary based on its continued assessment of the impact of the July 2022 price increases on the cost coverage of the IMTS—Outbound product.*

c. International Ancillary Services

In FY 2022, the International Ancillary Services product did not cover its attributable cost.<sup>128</sup> This product did not cover costs in 4 out of the 5 preceding fiscal years.<sup>129</sup> More specifically, Inbound Competitive International Registered Mail did not cover its attributable cost in FY 2022, causing the International Ancillary Services product to be non-compensatory.<sup>130</sup>

(1) Inbound Competitive International Registered Mail

(a) FY 2022 Results

The Postal Service attributed the continued negative contribution of Inbound Competitive International Registered Mail to an increase in cost combined with only a modest increase in pieces and revenue associated with Competitive International Registered Mail from FY 2021 to FY 2022. FY 2022 ACR at 93.

The Postal Service notes that the remuneration that it receives for the provision of registered mail service under Inbound Competitive International Registered Mail is governed by the Universal Postal Convention.<sup>131</sup> In its discussion of cost coverage for Inbound Competitive International Registered Mail, the Postal Service lists current and future per-item UPU rates that increase each calendar year and initially states that these scheduled calendar year rate increases “should help to improve cost coverage.” FY 2022 ACR at 94. However, in response to an information request, the Postal Service later acknowledges that the scheduled rate increases “are probably not sufficient to mitigate any future increases in costs that may occur similar to increases in costs seen in FY 2022.”

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<sup>128</sup> FY 2022 ACR at 93. International Ancillary Services consists of International Certificate of Mailing, Inbound International Tracked Delivery Service, Competitive International Registered Mail (which further includes Outbound Competitive International Registered Mail and Inbound Competitive International Registered Mail), Outbound International Return Receipt, Outbound International Insurance, and Customs Clearance and Delivery Fee. See MCS § 2615.

<sup>129</sup> See FY 2017 ACD at 88; FY 2018 ACD at 108; FY 2020 ACD at 77; FY 2021 ACD at 88.

<sup>130</sup> FY 2022 ACR at 93. The Competitive International Registered Mail component (MCS section 2615.2) of the International Ancillary Services product includes Inbound Competitive International Registered Mail and Outbound Competitive International Registered Mail. For the remainder of the discussion on International Ancillary Services, the Commission will refer to Inbound Competitive International Registered Mail as a sub-component of the International Ancillary Services product.

<sup>131</sup> See FY 2022 ACR at 94 (citing Universal Postal Union (UPU), Second Additional Protocol to the Universal Postal Convention, Geneva 2019 (Second Additional Protocol), Article 1 (Article 28 Amended), paragraph 8, available at <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/08-actsAndOtherDecisionsPreviousCongresses/actsOfTheExtraordinaryCongressGenevaEn.pdf>). See also Acts of the Abidjan Congress 2021, August 2021 (Acts of the Abidjan Congress), Article 28, paragraph 8, available at <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/07-actsAndOtherDecisions2021AbidjanCongress/actsAndOtherDecisions2021AbidjanCongressEn.pdf>.

Response to CHIR No. 4, question 1.b. The Postal Service explains that the scheduled annual rate increases average roughly 4.5 percent for the next several years, while the costs for Inbound Competitive International Registered Mail increased by about 6 percent in aggregate between FY 2021 and FY 2022. *Id.* The Postal Service further states that cost increases are highly dependent on inflation, which is difficult to predict. *Id.*

The Postal Service explains that it is reviewing various alternatives with the underlying objective to migrate registered items to the lower cost tracked offering. *Id.* question 1.a. The Postal Service asserts that, if successful, “migration would not improve the cost coverage for Inbound Competitive Registered Mail, but it would improve its contribution due to lower volume.” *Id.*

The Postal Service suggests that the Commission should take a more holistic view of all inbound registered items, including items not under MCS section 2615.2 Competitive International Registered Mail, Inbound Competitive International Registered Mail. *See* FY 2022 ACR at 94; *see also* Response to CHIR No. 4, question 1.c. The Postal Service provides a table in Library Reference USPS-FY22-NP2 demonstrating such a holistic approach, which includes information about MCS section 2615.2 Competitive International Registered Mail, Inbound Competitive International Registered Mail, as well as inbound registered items that were attributed to certain MCS section 2515.10 Inbound Competitive International Multi-Service Agreements with Foreign Postal Operators that were in effect in FY 2022.<sup>132</sup> This table is similar to a table provided by the Postal Service in two filings in Docket No. ACR2021.<sup>133</sup> The Postal Service notes that for cost calculations concerning inbound registered items, Postal Service data systems do not make any distinction among the various docket numbers offering inbound registered service. Response to CHIR No. 4, question 1.a. However, despite the usefulness of the holistic view in providing “a complete picture of cost coverage for inbound registered mail items,” the Postal Service states that it is not inclined to propose a reclassification of MCS section 2615.2 or any other agreements associated with inbound registered mail. *Id.* question 1.c.

#### (b) Comments

Only the Public Representative commented on Inbound Competitive International Registered Mail, noting the Postal Service’s discussion of the planned increases in per-item remuneration as a way to improve the cost coverage of Inbound Competitive International Registered Mail. PR Comments at 25. The Public Representative explains that the rates are set in Special Drawing Rights (SDR), which is a basket of currencies that the International Monetary Fund’s (IMF) Board of Directors reviews every 5 years. *Id.* He states that because the weight of the U.S. dollar in the SDR’s basket increased 1.65 percent in 2022, he anticipates that the Postal Service’s price increases for FY 2023 through FY 2025 will more effectively help Inbound Competitive International Registered Mail to cover its costs

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<sup>132</sup> *See* FY 2022 ACR at 94-95. *See also* Library Reference USPS-FY22-NP2, ICRA Core Files, Excel file “Reports.xlsx,” tab “Registered Mail Summary.”

<sup>133</sup> *See* Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 10, February 9, 2022, question 3.i. *See also* Docket No. ACR2021, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, June 27, 2022, question 1.

completely and suggests that the Postal Service consider the devaluation or revaluation of the U.S. dollar compared to the SDR to find a more effective price increase. *Id.* at 26.

The Postal Service responded that it does not have discretion to devalue or revalue the U.S. dollar compared to the SDR because the determination of exchange rates for Inbound Competitive International Registered Mail is governed by the UPU Convention Regulations.<sup>134</sup> According to the Postal Service, it must use the data published by the IMF, and thus cannot deliberately suppress the exchange value of the U.S. dollar for purposes of improving the financial performance of inbound products. Postal Service Reply Comments at 19.

(c) Previous Commission Directives

As part of the FY 2021 ACD, the Commission directed the Postal Service to provide a detailed analysis of the current attribution of costs and revenues for inbound registered items that entered the Postal Service's mail stream in FY 2021 under applicable MCS sections within 90 days of issuance of this ACD. FY 2021 ACD at 88.

The Postal Service complied with the Commission's directive on July 27, 2022.<sup>135</sup>

(d) Commission Analysis

The Commission observes that the Postal Service has expressed its expectation for improved cost coverage for Inbound Competitive International Registered Mail based on calendar year increases in per-item UPU rates since at least FY 2017.<sup>136</sup> Despite this expectation, the Commission notes that the cost coverage for Inbound Competitive International Registered Mail has been declining since FY 2018.<sup>137</sup>

Although the Commission finds the details provided in the table in Library Reference USPS-FY22-NP2 referenced by the Postal Service as presenting a more holistic view to be useful as background information, the Postal Service has provided no explanation for why the Commission should consider revenue received under a separate product on the MCS to evaluate the financial performance of Inbound Competitive International Registered Mail. Ultimately the holistic view does not change the fact that the product at issue—*i.e.*, MCS

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<sup>134</sup> Postal Service Reply Comments at 18-19 (citing Regulations of the Universal Postal Convention, Article 17-002).

<sup>135</sup> See Docket No. ACR2021, Library Reference USPS-FY21-NP45, July 27, 2022; Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 33, July 27, 2022 (Docket No. ACR2021, Response to CHIR No. 33).

<sup>136</sup> In FY 2017 through Postal Quarter 1 of FY 2020, Inbound International Registered Mail was included on the Market Dominant product list (MCS section 1510.2). Starting in Postal Quarter 2 of FY 2020 through the present, Inbound Competitive International Registered Mail is included on the Competitive product list (MCS section 2615.2). See Docket No. ACR2017, United States Postal Service Fiscal Year 2017 *Annual Compliance Report*, December 29, 2017, at 44 (FY 2017 ACR); Docket No. ACR2018, United States Postal Service Fiscal Year 2018 *Annual Compliance Report*, December 28, 2018, at 43 (FY 2018 ACR); Docket No. ACR2019, United States Postal Service Fiscal Year 2019 *Annual Compliance Report*, December 27, 2019, at 35 (FY 2019 ACR). See also FY 2020 ACR at 68; FY 2021 ACR at 85; FY 2022 ACR at 94.

<sup>137</sup> See Docket No. ACR2017, Library Reference PRC-LR-ACR2017-NP2, March 29, 2018; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-NP2, April 12, 2019; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-NP2, March 25, 2020; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-NP2, March 29, 2021; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-NP2; Library Reference PRC-LR-ACR2022-NP2.

section 2615.2 (Competitive International Registered Mail, Inbound Competitive International Registered Mail)—does not cover its costs.

Relatedly, in Docket No. ACR2021, Response to CHIR No. 33, the Postal Service presented a new approach for distributing costs related to inbound registered items between MCS section 2615.2 (Competitive International Registered Mail, Inbound Competitive International Registered Mail) and certain agreements under MCS section 2515.10 (Inbound Competitive International Multi-Service Agreements with Foreign Postal Operators). See Docket No. ACR2021, Response to CHIR No. 33, questions 1-2. The Commission views this approach as reasonable and encourages the Postal Service to continue with this approach until the Postal Service can identify a new methodology that would improve the accuracy of cost and revenue attribution for inbound registered items included under the applicable MCS sections.

The Commission confirms that rates for Inbound Competitive International Registered Mail are set in the UPU Convention and agrees with the Postal Service that it does not have the discretion to change the value of the U.S. dollar as compared to the SDR. Furthermore, the Commission finds it uncertain that the 1.65 percentage point increase noted by the Public Representative in the weight of the U.S. dollar in the SDR currency basket alone will make a material difference in cost coverage for Inbound Competitive International Registered Mail, as the value of the U.S. dollar is subject to variation.<sup>138</sup> The Commission is interested in the Postal Service's plans to migrate registered items to the lower-cost tracked offering and encourages the Postal Service to pursue this objective.

*The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022 because one of its sub-components, Inbound Competitive International Registered Mail, did not cover cost. The Commission directs the Postal Service to produce in the FY 2023 ACR and in all future ACRs a table that includes revenue, pieces, volume-variable costs, product-specific costs, total costs, contribution, and cost coverage of inbound registered items under MCS section 2615.2 (Competitive International Registered Mail, Inbound Competitive International Registered Mail), as well as inbound registered items that were attributed to other products, including MCS section 2515.10 (Inbound Competitive International Multi-Service Agreements with Foreign Postal Operators), that are in effect during the relevant fiscal year.<sup>139</sup>*

*The Commission further directs the Postal Service to file an update on its efforts to move registered mail to a tracked offering within 180 days of the issuance of this ACD and in the FY 2023 ACR. This filing should include a specific description of the Postal Service's plan, including anticipated major milestones and progress toward achieving them.*

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<sup>138</sup> The IMF described the increase in the weight of the U.S. dollar in the SDR currency basket in 2022 as modest and highlights that the ranking by weight of the five currencies in the SDR currency basket did not change from the 2015 valuation. International Monetary Fund, IMF Policy Paper: Review of the Method of Valuation of the SDR, May 16, 2022, at 19, available at <file:///I:/PPEA2022020.pdf>.

<sup>139</sup> This would be an updated version of Library Reference USPS-FY22-NP2, ICRA Core Files, Excel file "Reports.xlsx," tab "Registered Mail Summary."

## 4. Competitive International Products Consisting of NSAs

Competitive international mail also includes products with rates and fees not of general applicability that are established pursuant to one or more NSAs.

At the request of the Postal Service, and to address administrative concerns involving product reporting and classification on the Competitive product list, the Commission permitted the grouping of functionally equivalent international NSAs with the understanding that the Commission would evaluate whether each NSA covers its attributable cost.<sup>140</sup> Functionally equivalent international NSAs are collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data for each Competitive international NSA comprising Competitive international products with activity, and separately lists Competitive international NSAs with no activity during the fiscal year. *See* Library Reference USPS-FY22-NP2. For FY 2022, the Postal Service provided data for 372 international NSAs, 347 of which include negotiated rates for outbound mail and 25 of which include negotiated rates for inbound mail.<sup>141</sup>

The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

### a. Competitive Outbound International Products Consisting of NSAs

Competitive outbound international products with negotiated rates are classified on the Competitive product list. Under outbound NSAs, mailers must commit to tendering specified minimum volume, revenue, or both on an annual basis in exchange for reduced rates from the Postal Service.<sup>142</sup> Additional postal services may be available for products with rates and fees not of general applicability.<sup>143</sup> Figure IV-2 shows the FY 2022 product category for each of these products for which the Postal Service reports FY 2022 financial results.

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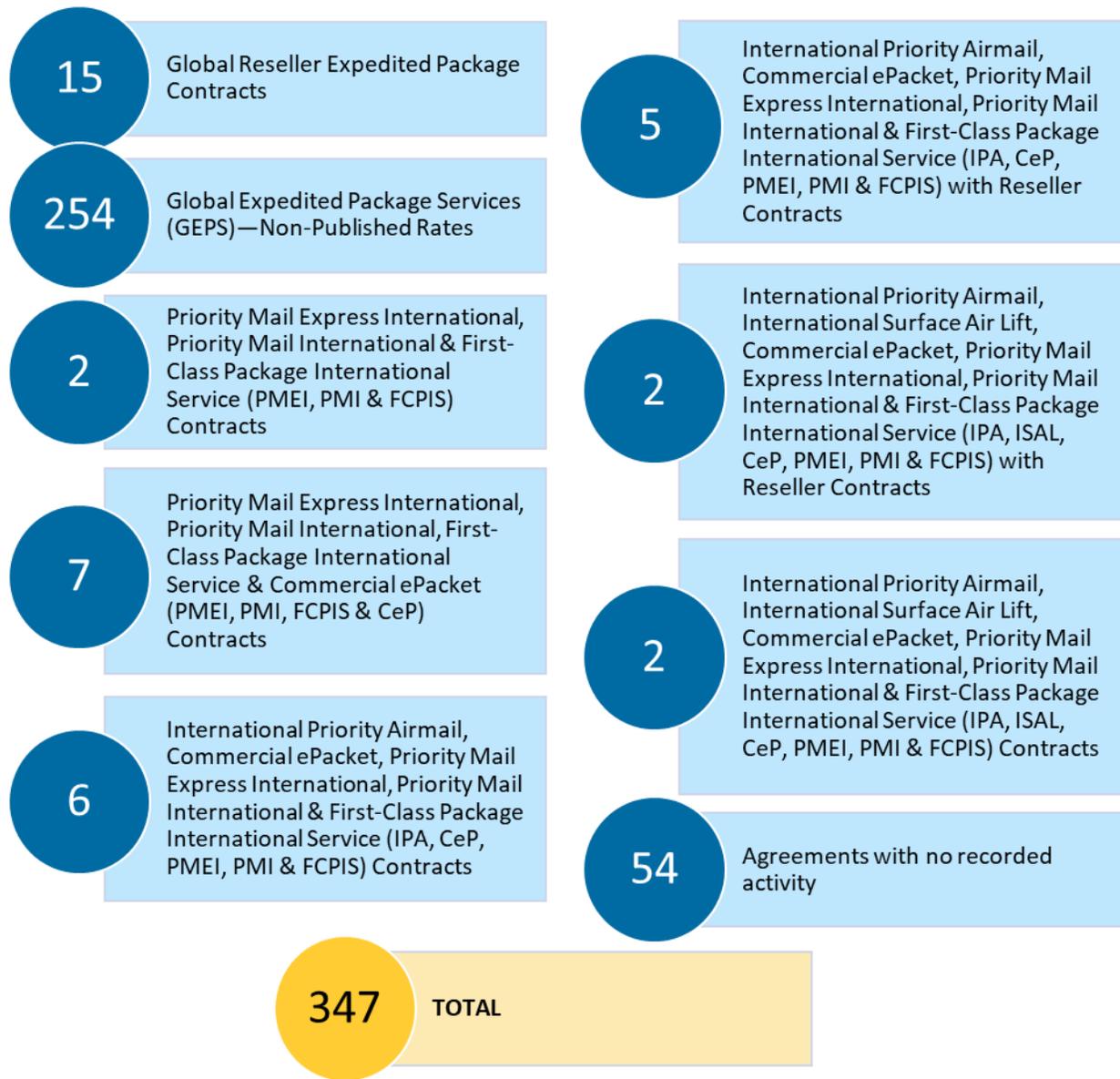
<sup>140</sup> *See, e.g.*, Docket No. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

<sup>141</sup> Library Reference USPS-FY22-NP2; Library Reference PRC-LR-ACR2022-NP2. The Commission counts each serial-numbered agreement included under the Global Expedited Package Services—Non-Published Rates (GEPS—NPR) product as one NSA in this summary value.

<sup>142</sup> The Commission has previously expressed concern that the Postal Service does not always enforce customers' minimum volume commitments. *See* Docket Nos. MC2019-127 and CP2019-136, Order Adding Priority Mail Express & Priority Mail Contract 92 to the Competitive Product List, April 30, 2019, at 5 (Order No. 5077). The Commission continues to monitor compliance with statutory requirements regardless of adherence to contractual minimums.

<sup>143</sup> *See, e.g.*, MCS section 2510.7.5 for additional services available to products included in the Global Reseller Expedited Package Contracts category.

**Figure IV-2**  
**Competitive Outbound International Products by Category, FY 2022<sup>144</sup>**



Source: See Library Reference USPS-FY22-NP2.

<sup>144</sup> This figure includes outbound international products by product category for which the Postal Service reports financial results, for which there is a total of 293 agreements. It also includes 54 agreements with no recorded activity.

The Postal Service reports financial results for each outbound international NSA within these product categories.<sup>145</sup> In FY 2022, all but one outbound Competitive international NSA product covered their attributable costs. The only outbound Competitive international NSA product that did not cover its attributable cost was Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5. FY 2022 ACR at 97. The Postal Service states that this agreement expired on May 31, 2022, with no renewal. *Id.* The Postal Service highlights that this NSA had only a very small number of pieces in FY 2022, all in Postal Quarter 1, and fell short of covering its costs by only a trivial amount. *Id.*

The Commission finds that Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5 did not cover its attributable cost and thus did not comply with 39 U.S.C. § 3633(b) in FY 2022. No further action is needed, as the agreement expired on May 31, 2022 and was not renewed.

While all other Competitive outbound international NSAs covered their attributable cost, the Postal Service confirmed that it used provisional 2021 UPU quality-linked terminal dues rates for FY 2022 quarter 1 in its workpapers, instead of final 2021 quality-linked terminal dues rates that the UPU published on September 19, 2022. Response to CHIR No. 4, question 2. The Postal Service explained that it did not use the final 2021 terminal dues rates because they were issued on September 19, 2022, and they had not been entered or billed at the time of closing the FY 2022 accounting books on September 30, 2022. *Id.*

The Commission understands that there was a short window of time between when the UPU issued the final 2021 terminal dues rates on September 19, 2022, and the closing of the Postal Service's accounting books on September 30, 2022. However, the Commission notes that these final terminal dues rates were available for more than 3 months before the FY 2022 ACR was filed on December 29, 2022. The Commission acknowledges that the difference between provisional and final terminal dues rates should not have resulted in any additional NSAs becoming non-compensatory. However, it is a long-standing practice in dockets before the Commission to use the most updated information.

The Commission also notes that the Postal Service included a file in Library Reference USPS-FY22-NP32 that altered ICRA unit costs used as input to the financial models for NSAs as a result of changes to zone-based pricing for PMI destined to Canada approved in Docket No. CP2023-42, but made no mention of the relevant computational change in the preface.<sup>146</sup> The Commission finds that the content of the new file affects projections of cost coverage for certain NSAs filed in FY 2023 and therefore does not alter the results of the FY 2022 ACD. The Commission reminds the Postal Service that before it can use the data

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<sup>145</sup> In FY 2022, the Postal Service reports financial results for 293 outbound international NSAs and serial-numbered agreements. For the remaining 54 outbound international NSAs and serial-numbered agreements, the Postal Service reports no activity. See Library Reference USPS-FY22-NP2.

<sup>146</sup> See Library Reference USPS-FY22-NP32, January 12, 2023; Docket No. CP2023-42, Order Approving Price Adjustments for Competitive Products, December 22, 2022 (Order No. 6384).

developed from this or another file in a manner that affects the data required in reporting on any product, it will need to request a change to the appropriate analytical principle(s). In addition, the Commission reminds the Postal Service that, in accordance with 39 C.F.R. § 3050.2(a), in its periodic reporting it is obligated to identify any input data or quantification techniques that changed from the prior year—including, but not limited to, the addition or deletion of files or tabs in library references. In particular, a detailed explanatory summary identifying any novel file, terminology, and methodology (or how an existing methodology was adapted or updated to suit current circumstances) should accompany all new workbooks or changes to workbooks filed in future ACRs to help facilitate and expedite the Commission’s review process by minimizing the need for additional CHIRs.

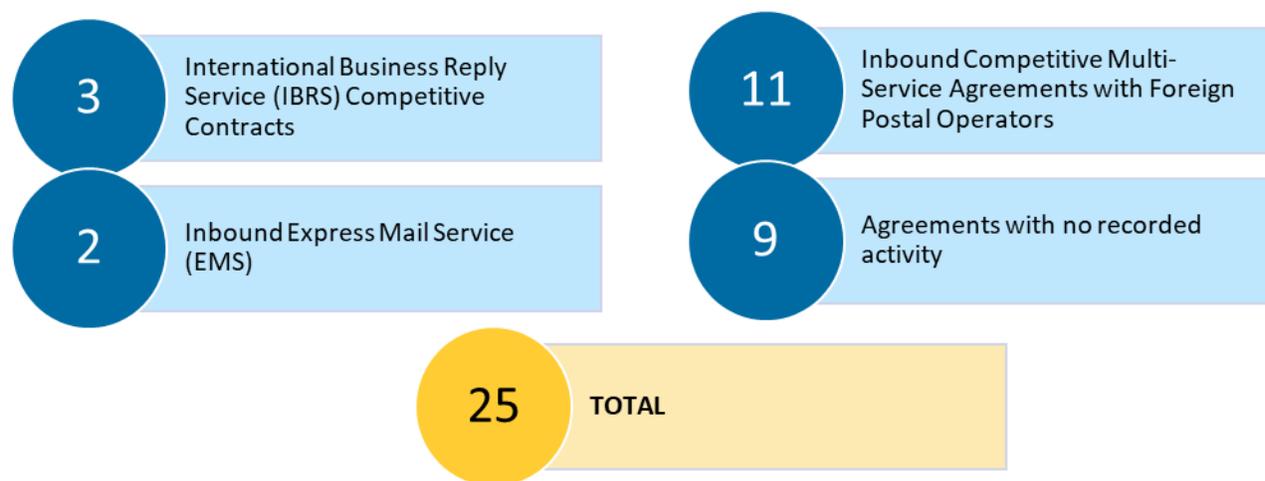
*The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for one Competitive outbound international NSA in Docket No. CP2020-193 that did not cover its attributable cost. The Commission recommends that the Postal Service continually monitor the financial performance of each outbound international NSA and take steps to terminate or renegotiate agreements that are non-compensatory. The Commission also urges the Postal Service to update its accounting processes to ensure that the FY 2023 ACR includes all latest available terminal dues and other international delivery rates.*

*To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.*

b. Competitive Inbound International Products Consisting of NSAs

Competitive inbound international products with negotiated rates are classified on the Competitive product list. Inbound international agreements entered into by the Postal Service and one or more FPOs provide inbound services and prices that are available only to mailers meeting defined eligibility requirements for mail preparation, content, size, and weight limitations. Figure IV-3 shows the product category for each inbound international product for which the Postal Service reports FY 2022 financial results.

**Figure IV-3**  
**Competitive Inbound International Products by Category, FY 2022<sup>147</sup>**



Source: See Library Reference USPS-FY22-NP2.

The Postal Service reports financial results for each inbound Competitive NSA within these products.<sup>148</sup> In FY 2022, each inbound Competitive international product and each inbound Competitive NSA within these products covered its attributable cost.

*The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service continually monitor the financial performance of each inbound international NSA and take steps to terminate or renegotiate agreements that are non-compensatory.*

*To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.*

<sup>147</sup> This figure includes inbound international products by product category for which the Postal Service reports financial results, for which there is a total of 16 agreements. For the remaining 9 inbound international NSAs, the Postal Service reports no activity. See Library Reference USPS-FY22-NP2.

<sup>148</sup> In FY 2022, the Postal Service reports financial results for 16 inbound international NSAs. See Library Reference USPS-FY22-NP2.

## 5. Competitive Nonpostal Services

In FY 2022, Competitive Nonpostal Services<sup>149</sup> generated \$168.506 million in revenue and incurred \$58.775 million in expenses, which resulted in contribution of \$109.732 million.<sup>150</sup> This figure represents a 22 percent increase in contribution compared to FY 2021 and an overall cost coverage of 286.7 percent.

*The Commission concludes that Competitive Nonpostal Services satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded the attributable cost for each product.*

### **D. Appropriate Share Provision: 39 U.S.C. § 3633(a)(3)**

39 U.S.C. § 3633(a)(3) requires the Commission to “ensure that all competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service.” The appropriate share represents a minimum contribution level, functioning as a floor for all Competitive products collectively.<sup>151</sup> 39 U.S.C. § 3633(b) requires the Commission to review the appropriate share requirement every 5 years to determine whether the requirement “should be retained in its current form, modified, or eliminated.” 39 U.S.C. § 3633(b). In implementing section 3633 after the PAEA was enacted, the Commission set the initial appropriate share requirement at 5.5 percent of total institutional costs. In FY 2012, the Commission conducted its first review of the appropriate share and found it suitable to maintain the requirement at 5.5 percent.

Following its second review of the appropriate share, which was initiated in FY 2017, the Commission implemented a new formula-based methodology for determining what the appropriate share should be. Under this approach, the appropriate share is updated annually as part of the ACD. Order No. 4963 at 27. The Commission determined in the FY 2020 ACD that the appropriate share for FY 2022 would be 10.0 percent. FY 2020 ACD at 93-95.

Order No. 4963 was appealed to the United States Court of Appeals for the District of Columbia Circuit, which, on April 14, 2020, remanded it to the Commission for clarification of particular aspects of the Commission’s interpretation of 39 U.S.C. § 3633. On November 18, 2021, the Commission issued a Supplemental Notice of Proposed Rulemaking addressing the remanded issues, re-proposing the formula-based approach to determining

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<sup>149</sup> The nine Competitive nonpostal products are: (1) Advertising; (2) Licensing of Intellectual Property other than Officially Licensed Retail Products (OLRP); (3) Mail Service Promotion; (4) Officially Licensed Retail Products (OLRP); (5) Passport Photo Service; (6) Photocopying Service; (7) Rental, Leasing, Licensing or other Non-Sale Disposition of Tangible Property; (8) Training Facilities and Related Services; and (9) USPS Electronic Postmark (EPM) Program. MCS § 2700.2.

<sup>150</sup> Library Reference USPS-FY22-NP27, file “USPS\_FY22\_NP27\_Preface.pdf.”

<sup>151</sup> See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, ¶ 3056 (Order No. 26); 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, at 46-47 (Order No. 6043).

the appropriate share, and initiating the Commission's third review of the appropriate share requirement. *See generally* Order No. 6043. The Commission explained in the FY 2020 ACD that it would not use the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3) until a final rule had been issued. FY 2020 ACD at 91. However, because the formula is recursive, the Commission continued to perform the relevant calculations to determine what the formula-based appropriate share would be, in order to avoid any disruption in the formula's operation while the remand was being addressed. *Id.*

On January 9, 2023, the Commission issued a final order addressing the remanded issues, completing its third review of the appropriate share requirement, and re-adopting the formula-based approach to determining the appropriate share.<sup>152</sup> On January 10, 2023, UPS filed a petition for review of Order No. 6399 in the United States Court of Appeals for the District of Columbia Circuit.<sup>153</sup> Given the continuing litigation of this issue, the Commission will once again refrain from using the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3) in FY 2022. However, the Commission will continue to perform the relevant calculations to avoid any disruption in the formula's operation while the appeal of Order No. 6399 is ongoing.

## 1. Comments on Appropriate Share Provision

The Postal Service asserts that the total Competitive product contribution for FY 2022 was \$12.462 billion, or 38.1 percent of total institutional costs, an amount that complies with the requirements of 39 U.S.C. § 3633(a)(3).<sup>154</sup>

The Public Representative, Pitney Bowes, GCA, and NAPM all concur that Competitive products were in compliance with 39 U.S.C. § 3633(a)(3) for FY 2022.<sup>155</sup>

However, TPA, "express[ing] concern that parcel pricing does not fully account for attributable and institutional costs[,]" asserts that the Postal Service "fails to explain why 38.1 percent coverage is adequate when competitive products comprise roughly 55 percent of total mail weight and recent fleet purchases are specifically designed to accommodate large parcels." TPA Comments at 1.

In reply, the Postal Service asserts that TPA's arguments have been rejected previously and that TPA "fails utterly to offer any serious basis to question the sufficiency of the magnitude

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<sup>152</sup> See 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).

<sup>153</sup> Petition for Review, *United Parcel Serv., Inc. v. Postal Regul. Comm'n*, No. 23-1006 (D.C. Cir. filed Jan. 10, 2023), ECF No. 1980905.

<sup>154</sup> FY 2022 ACR at 98-100. The FY 2022 ACR originally reported a negative institutional cost. However, in Docket No. RM2023-2, the Commission approved a change in analytical principles that impacted the calculation of institutional cost for FY 2022. *See generally* Order No. 6459. The resulting change yielded a positive institutional cost value of \$32.706 billion. FY 2022 ACR at 100; see Library Reference PRC-LR-ACR2022-1, Excel file "FY22 Summary LR-1.xlsx," tab "Total All Mail (Appendix A)."

<sup>155</sup> See, e.g., Pitney Bowes Comments at 4-5; GCA Comments at 7; NAPM Comments at 7-8.

of the contribution to institutional cost recovery made by competitive products in FY 2022.” Postal Service Reply Comments at 9-10.

## 2. Commission Analysis

### a. FY 2022 Appropriate Share

In FY 2022, the total institutional costs of the Postal Service were \$32.706 billion. FY 2022 ACR at 100. In FY 2022, the total contribution made by Competitive products collectively to institutional costs was \$12.462 billion (approximately 38.1 percent of total institutional costs), which would have met either the 5.5 percent requirement or the formula-derived 10.0 percent requirement.<sup>156</sup> Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

Assertions like the one made by TPA were thoroughly addressed in Docket Nos. RM2017-1 and RM2022-2, in which the Commission explained why it finds such assertions regarding the formula-based appropriate share requirement unpersuasive. Order No. 6399 at 177-225. Additionally, pursuant to 39 U.S.C. § 3633(a)(3), the minimum amount that Competitive products must contribute to the Postal Service’s institutional costs is determined by the Commission. *See* 39 U.S.C. § 3633(a)(3). The Postal Service is not required to justify Competitive product contribution in relation to other factors such as Competitive products’ percentage of total weight or recent fleet purchases. Pursuant to 39 U.S.C. § 3633(a)(3) and 39 C.F.R. § 3035.107(c), the Postal Service’s Competitive products need only contribute more than the minimum contribution requirement prescribed by the rules.

The Commission finds that in FY 2022 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service’s institutional costs.

### b. FY 2023 Appropriate Share

The formula-based approach to determining the appropriate share is recursive. Each year when conducting its annual compliance review, the Commission determines the appropriate share for the upcoming fiscal year. Order No. 4963 at 26-27. In conducting its annual compliance review for FY 2021, which was carried out during FY 2022, the Commission applied the formula and determined that the appropriate share for FY 2023 would be 10.4 percent. FY 2021 ACD at 97-100.

### c. FY 2024 Appropriate Share

In this section, the Commission applies the formula to determine that the appropriate share for FY 2024 under the formula-based approach would be 9.9 percent. The formula and the calculation are explained in greater detail below.

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<sup>156</sup> See Library Reference PRC-LR-ACR2022-1, Excel file “FY 22 Summary LR-1.xlsx,” tab “Total All Mail (Appendix A).”

The first component of the formula is the Competitive Contribution Margin, which is calculated as follows:

$$\text{Competitive Contribution Margin} = \frac{\text{Total Revenue} - \text{Total Attributable Cost}}{\text{Total Revenue}}$$

Order No. 4963 at 23. “Total attributable cost” refers to the cost incurred by the Postal Service in producing Competitive products collectively. *Id.* at 23-24. “Total revenue” refers to the total amount of revenue that the Postal Service is able to realize from its Competitive products collectively. *Id.* at 24.

The second component of the formula is the Competitive Growth Differential, which is calculated as follows:

$$\text{Competitive Growth Differential} = \text{Market Share}_{USPS} * (\% \Delta \text{Revenue}_{USPS} - \% \Delta \text{Revenue}_{C\&M})$$

Order No. 4963 at 25. “ $\text{Market Share}_{USPS}$ ” refers to the Postal Service’s share of the overall parcel delivery market, expressed as a percentage. It “is determined by dividing the Postal Service’s total competitive product revenue by the sum of the Postal Service’s total competitive product revenue” and the total revenue earned by the Postal Service’s competitors collectively, as represented in the following equation:

$$\text{Market Share}_{USPS} = \frac{\text{Revenue}_{USPS}}{\text{Revenue}_{USPS} + \text{Revenue}_{C\&M}}$$

*Id.* at 25 n.54. “ $\% \Delta \text{Revenue}_{USPS}$ ” refers to the percentage change in the Postal Service’s total real Competitive product revenue compared to the previous year. *Id.* at 25.

“ $\% \Delta \text{Revenue}_{C\&M}$ ” refers to the percentage change in the total real revenue earned by the Postal Service’s competitors collectively compared to the previous year. *Id.*

With the forgoing component values, the appropriate share for a given fiscal year can be calculated using the formula re-adopted by the Commission in Order No. 6399. Specifically, the formula is:

$$\begin{aligned} AS_{t+1} &= AS_t * (1 + \% \Delta CCM_{t-1} + CGD_{t-1}) \\ \text{If } t = 0 &= \text{FY 2007, } AS = 5.5\% \end{aligned}$$

Where,

AS = Appropriate Share

CCM = Competitive Contribution Margin

CGD = Competitive Growth Differential

t = Fiscal Year

*Id.* at 26. “ $AS_t$ ” refers to the appropriate share value for the fiscal year during which an ACD proceeding is being conducted. Since the ACD is conducted after the close of each fiscal

year, this will always be the fiscal year immediately following the fiscal year under review. For example, this ACD evaluates compliance for FY 2022 but is being conducted in FY 2023 and, as it relates to the formula, is being used to determine what the appropriate share will be in FY 2024. “ $AS_{t-1}$ ” refers to the appropriate share value from the fiscal year being evaluated during an ACD proceeding (for purposes of the present analysis, this is FY 2022). “ $AS_{t+1}$ ” refers to the appropriate share value for the fiscal year after the fiscal year during which an ACD proceeding is being conducted (for purposes of the present analysis, this is FY 2024).

For the Competitive Contribution Margin, in FY 2022, the total Competitive product revenue was \$33.129 billion. The FY 2022 total attributable cost incurred in producing Competitive products was \$20.667 billion. Therefore, the Competitive Contribution Margin value was:

$$\frac{\$33.129 \text{ billion} - \$20.667 \text{ billion}}{\$33.129 \text{ billion}} = 0.376,$$

representing a 2.4 percent decrease from FY 2021.<sup>157</sup>

For the Competitive Growth Differential, the Commission calculates the revenue growth rates for both the Postal Service and its competitors in FY 2022. In FY 2021, the Postal Service’s total real Competitive product revenue was \$26.194 billion, while in FY 2022 it was \$23.472 billion. The percentage change from FY 2021 to FY 2022 was negative 10.4 percent. In FY 2021, the total real revenue earned by the Postal Service’s competitors collectively was \$102.469 billion, while in FY 2022 it was \$104.964 billion. The percentage change from FY 2021 to FY 2022 was 2.4 percent. The Postal Service’s market share in the base year was 20.4 percent. The Competitive Growth Differential value for FY 2022 was thus:

$$20.4\% * (-10.4\% - (2.4\%)) = -2.6\%.$$

See Library Reference PRC-LR-ACR2022-8.

When the component values are plugged into the formula, the result is:

$$10.4\% * (1 + (-2.4\%) + (-2.6\%)) = 9.9\%.$$

Therefore, the appropriate share requirement for FY 2024 would be 9.9 percent under the formula-based approach.

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<sup>157</sup> The following calculations can also be found in a library reference accompanying this Report. See Library Reference PRC-LR-ACR2022-8, Excel file “PRC-ACR2022-Appropriate Share Calculation.xlsx,” tab “Competitive Contribution Margin,” cells B17, C17.

## E. Pilot Program – Gift Cards

In FY 2021, the Postal Service initiated a pilot program (Pilot Program) to allow postal retail customers to use payroll and business checks to purchase stored value Gift Cards.<sup>158</sup>

The Pilot Program began on September 13, 2021, at four Post Office retail locations in response to a request from a postal union that identified the program as “an initiative that could potentially be useful for a segment of consumers....”<sup>159</sup> Under the program, a customer is charged a fee of \$5.95 for a variable Gift Card up to \$500 (or \$5.95 per Gift Card, if the customer elects to put the value on multiple cards). *See id.* questions 1.d., 1.h. The total amount loaded on the Gift Card(s) cannot exceed \$500 per day per customer and no cash is disbursed to the customer. *Id.* questions 1.h., 1.j. From September 13, 2021, to September 30, 2022, a total of seven Gift Cards were purchased under the Pilot Program, generating a total fee revenue of \$41.65. Response to CIR No. 1, questions 1.a.-b. The last sale occurred in FY 2022 Quarter Two (January 1, 2022 to March 31, 2022).<sup>160</sup>

The Commission first inquired about the Pilot Program in the FY 2021 ACD.<sup>161</sup> The Postal Service represented that no new products or services were involved in the program and that the focus of the program was the limited acceptance of an additional form of payment.<sup>162</sup> The Postal Service asserted that the Pilot Program was intended to “assess consumer usage and hence whether there is a benefit to the communities involved, operational capacities, number of business and payroll checks cashed, and funds transferred to a gift card.” Docket No. ACR2021, Response to CIR No. 1, question 1.i. However, the Postal Service stated that it did not track whether Gift Cards are mailed, regardless of the payment type. *Id.* question 2.b. In addition, it ascertained that all transactions at that point had been solely for the purchase of Gift Cards using business and payroll checks and did not involve the sale of other items such as postage, stationery, or greeting cards. Docket No. ACR2021, Response to CIR No. 2, question 2.

The Postal Service also provided that no plans had been made regarding potential surveys or other means to determine whether a customer purchasing a Gift Card under the Pilot Program would be likely to mail it. *Id.* question 3.a. The Postal Service further stated that it

<sup>158</sup> Gift Cards is a price category within the Greeting Cards, Gift Cards, and Stationery product. *See* MCS § 2610. The Commission and the Postal Service have both referred to Gift Cards as a product in multiple filings, and for the purposes of this discussion, the Commission will continue to do so throughout this section to avoid confusion.

<sup>159</sup> *See* Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 1, January 14, 2022, questions 1.a.-b. (Docket No. ACR2021, Response to CIR No. 1). The four locations are: Baychester Post Office, 1525 E Gun Hill Road, Bronx, NY 10469; Bailey Crossroads Post Office, 6021 Leesburg Pike, Falls Church, VA 22041; National Capital (Dortheys Height) Post Office, 2 Massachusetts Avenue NE, Washington, DC 20002; and Baltimore Post Office, 900 E Fayette Street, Baltimore, MD 21233. Docket No. ACR2021, Response to CIR No. 1, question 1.a.

<sup>160</sup> *See* Docket No. ACR2021, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, May 10, 2022, at 11.

<sup>161</sup> Docket No. ACR2021, Commission Information Request No. 1, January 7, 2022; Docket No. ACR2021, Commission Information Request No. 2 and Notice of Filing Under Seal, January 28, 2022 (Docket No. ACR2021, CIR No. 2).

<sup>162</sup> Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-7 of Commission Information Request No. 2, February 4, 2022, question 6 (Docket No. ACR2021, Response to CIR No. 2).

would continue to monitor the program and noted that its decisions or plans regarding terminating, changing, or expanding the program were pending evaluation of the program, even though the original schedule proposed an end date in March 2022. *See id.* questions 1, 7.

Although the Postal Service asserted that no new products or services are involved in the Pilot Program, market research suggested that the program was targeted specifically at a market looking for financial services. Docket No. ACR2021, Response to CIR No. 1, question 1.b. In addition, the Postal Service's own promotional materials marketed the program using the language "Need to 'cash' a check?"<sup>163</sup> The Commission previously approved the Postal Service's sale of Gift Cards as a product that was "likely to be mailed, similar to greeting cards and stationery" and was often involved in the sale of other postal retail products such as greeting cards.<sup>164</sup> In the FY 2021 ACD, the Commission explained that changes in the marketing and planned usage of the product have the potential to change the nature of the product, and noted that questions remained as to whether the Pilot Program represented a change in the use or nature of the Gift Cards product that may require additional classification action. FY 2021 ACD at 102-03.

The Commission directed the Postal Service to report quarterly information on the Pilot Program, including updates on volume and revenue, as well as future plans for the Pilot Program as long as it remained in effect. *Id.* at 103. The Commission also directed the Postal Service to file a notice of termination with the Commission when the Pilot Program ends, including notification no later than 14 days after the publication of the ACD whether the Postal Service is continuing the Pilot Program past its initially anticipated end date of March 2022. *Id.* The Commission stated that if the Pilot Program remained in effect after March 2022, the Commission would initiate a Mail Classification proceeding to explore and review the issues related to the Pilot Program. *Id.*

In response to the directive, the Postal Service stated that it continued the Pilot Program and "[n]o final determinations have been reached with regard to ending the pilot, or with regard to any other potential steps that might be taken to modify the pilot."<sup>165</sup> The Postal Service further stated that it "remains of the view that the pilot program is an appropriate and limited test of an alternative payment method for the established gift card product, which does not implicate the current Mail Classification Schedule, and that no further regulatory action is warranted at this time." *Id.* The Postal Service filed four quarterly reports concerning the Pilot Program in Docket No. ACR2021, with the most recent filing

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<sup>163</sup> See Docket No. ACR2021, Response to CIR No. 2, PowerPoint file "CIR.2.Q.4.Pictures of Promo Items.pptx."

<sup>164</sup> See Docket No. MC2014-26, Request of the Postal Service to Add Gift Cards as a New Price Category in the Greeting Cards and Stationery Product, June 9, 2014, Attachment B at 7. *See also* Docket No. MC2014-26, Order Granting Request to Add Gift Cards to the Competitive Product List, August 8, 2014 (Order No. 2145).

<sup>165</sup> Docket No. ACR2021, First Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, April 12, 2022, at 2.

on February 9, 2023.<sup>166</sup> The Postal Service reported fee revenue for one gift card under the Pilot Program in March 2022 and continuously stated that no determinations for future plans had been made concerning the Pilot Program.

On May 16, 2022, the Commission initiated Docket No. MC2022-60.<sup>167</sup> In Order No. 6174, the Commission sought to further explore whether the Pilot Program changed the nature of the Gift Card product to the degree that the product (or an undefined sub-component of the product) may be categorized as a non-postal product. Order No. 6174 at 2. The Commission appointed a Public Representative to represent the interests of the general public and invited comments from interested parties. *Id.* at 6. The American Bankers Association, the American Postal Workers Union, AFL-CIO, Mailers Hub, the Association for Postal Commerce, the Postal Service, and the Public Representative provided comments.<sup>168</sup> As part of that proceeding, the Postal Service asserted that a new payment method does not change the nature of the product and there was no need for the Commission to conduct further proceedings on this matter. Docket No. MC2022-60, Postal Service Comments at 1-2. Although some commenters agreed with the Postal Service, one commenter stated that the Postal Service conducted a market test without necessary regulatory authority and others argued that the Pilot Program was a test of a new nonpostal service which should be terminated.<sup>169</sup>

In its FY 2022 ACR, the Postal Service did not provide any information about the Pilot Program. However, in response to CIRs, the Postal Service states, “there have been no modifications made to the pilot program” and confirms that Gift Cards can still be purchased under the Pilot Program as of February 2023. Response to CIR No. 1, question 7; Response to CIR No. 3, question 3. The Postal Service further states that it has not considered expanding the testing of this form of payment to any other Postal Service product and it “has not implemented testing of other payment acceptance methods,” but it “will continue to explore alternative payment options.” Response to CIR No. 1, question 8.

The Commission also learned that, in February 2022, the Postal Service developed a product roadmap for the Pilot Program that included “lessons learned, potential expansion

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<sup>166</sup> Docket No. ACR2021, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, May 10, 2022, at 11; Docket No. ACR2021, Fourth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, August 9, 2022, at 11; Docket No. ACR2021, Fifth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, November 9, 2022, at 11; Docket No. ACR2021, Sixth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, February 9, 2023, at 12.

<sup>167</sup> Docket No. MC2022-60, Notice and Order Concerning Potential Modification of Special Services on the Competitive Product List, May 16, 2022 (Order No. 6174).

<sup>168</sup> Docket No. MC2022-60, Comment of American Bankers Association (ABA), June 30, 2022 (Docket No. MC2022-60, ABA Comments); Docket No. MC2022-60, American Postal Workers Union, AFL-CIO’s Public Comment, July 7, 2022 (Docket No. MC2022-60, APWU Comments); Docket No. MC2022-60, Comments of Mailers Hub, July 7, 2022 (Docket No. MC2022-60, Mailers Hub Comments); Docket No. MC2022-60, Comments of the Association for Postal Commerce, July 7, 2022 (Docket No. MC2022-60, PostCom Comments); Docket No. MC2022-60, Comments of the United States Postal Service, July 7, 2022 (Docket No. MC2022-60, Postal Service Comments); Docket No. MC2022-60, Public Representative Comments, July 7, 2022 (Docket No. MC2022-60, PR Comments).

<sup>169</sup> See Docket No. MC2022-60, ABA Comments; Docket No. MC2022-60, APWU Comments; Docket No. MC2022-60, Mailers Hub Comments; Docket No. MC2022-60, PostCom Comments; Docket No. MC2022-60, PR Comments.

into target markets, location, price, and alternative verification processes.”<sup>170</sup> The roadmap raises further questions about whether the Pilot Program changes the nature of the Gift Card product.<sup>171</sup>

In response to questions about the evaluation of the Pilot Program, the Postal Service asserts that the initiation of Docket No. MC2022-60 has created “uncertainty” for the program and that a “regulatory framework” is needed to evaluate the future of the program. Response to CIR No. 1, question 3.c. This assertion is a departure from the Postal Service’s prior stance that it intended to assess consumer usage of the program and benefits to relevant communities served by the Pilot Program. *See* Docket No. ACR2021, Response to CIR No. 1, question 1.i. In addition, the Postal Service previously stated that the Commission’s review of its Pilot Program was “unnecessary” because the Pilot Program is merely testing a new form of payment for an established postal product and is not a new or experimental product itself. *Id.* question 1.c.

The Commission finds the Postal Service’s change in position perplexing. The Commission notes that neither the FY 2021 ACD directive noted above nor Order No. 6174, both of which simply seek information, preclude the Postal Service from filing a proper request with the Commission. If the Postal Service requires a clear “regulatory framework” to continue the Pilot Program, it may seek it from the Commission using the appropriate proceeding. Therefore, the Postal Service is encouraged to submit a filing, with robust specificity as to its plans for the Pilot Program and the regulatory framework it requires, in either Docket No. MC2022-60 or through the initiation of a new docket.

Furthermore, the development of a “product” roadmap, which includes plans for further geographic expansion as well as other proposed changes to the Pilot Program, coupled with the prior marketing materials that advertised the Pilot Program as a way “to ‘cash’ a check” raise a question as to whether the Pilot Program is merely a test of an alternative payment method. To better understand the Pilot Program as well as understand whether there has been a change in the use or nature of the Gift Card product beyond its intended use, the Commission will continue to monitor the Pilot Program while it remains in operation.

The Commission also will further explore the Gift Card product to assess customer usage and its nexus to the mail (*i.e.*, whether Gift Cards are likely to be mailed or involved in the sale of other postal retail products). In seeking the addition of Gift Cards to the Competitive product list, the Postal Service provided periodic reports and survey results regarding purchasers’ use of Gift Cards. *See* Order No. 2145 at 12. Specifically, these tools confirmed expectations that a majority of Gift Cards are mailed and sales of Gift Cards fostered the use of the mails. *Id.* In the order, the Commission also noted the similarity of Gift Cards to Postal

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<sup>170</sup> Response to CIR No. 1, question 7. Despite a January 2022 inquiry regarding expansion of the Pilot Program and the FY 2022 ACD directive requiring the Postal Service to report “future plans for the Pilot Program as long as it remains in effect,” the Commission only learned of the product roadmap in response to its recent information request. *See* Docket No. ACR2021, CIR No. 2, question 1; Docket No. ACR2021, Response to CIR No. 2, question 1; FY 2021 ACD at 103.

<sup>171</sup> *See* Library Reference USPS-FY22-NP40, February 15, 2023.

Service money orders, which were long regarded as a postal service on the basis that money orders are likely to be mailed. *Id.*

In response to inquiries about the Pilot Program, the Postal Service stated that it does not track whether Gift Cards, regardless of payment type, are mailed. Because it is unclear whether Gift Cards are likely to be mailed or are otherwise involved in the sale of other postal retail products, the Commission will seek further information about the Gift Card product as a whole to evaluate whether there has been a change in the use or nature of the Gift Card product beyond its intended use.

The Commission reiterates that changes that have an impact on a product's use or classification must be filed with the Commission because the Commission regulates what products may be offered and the Commission controls the addition and removal of products through the MCS. *See* FY 2021 ACD at 103. The Postal Service should not be making unilateral decisions on what is, or is not, a new or experimental product. Pursuant to 39 C.F.R. part 3045 and 39 U.S.C. § 3641, any market test for an experimental product, including services ancillary to only Competitive products, must be first reviewed and approved by the Commission at least 30 days before initiating such tests. *See* 39 C.F.R. pt. 3045; 39 U.S.C. § 3641.

*The Commission directs the Postal Service to report quarterly information on the Pilot Program and the Gift Card product as a whole.<sup>172</sup> The report shall be filed in Docket No. MC2022-60 and shall include information on volume, revenue, and costs (which should include training-related costs, labor costs associated with the retail transactions, and supply costs) separately for Gift Cards purchased as part of the Pilot Program and all Gift Cards. The report must also include whether Gift Cards, both in general and those sold as part of the Pilot Program, are likely to be mailed or otherwise promote the use of the mail (for example, number of Gift Cards purchased in a transaction that included other postal products). Finally, the report must include any plans for modifications or other future plans of the Pilot Program or Gift Card product, including any plans for termination of the Pilot Program.*

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<sup>172</sup> Chairman Kubayanda and Commissioner Poling do not agree with including the Gift Card product as a whole in this directive.

## F. Interagency Agreements

Pursuant to a new requirement enacted by the PSRA, the Postal Service must submit a report to the Commission demonstrating that any nonpostal services in effect during the fiscal year under review comply with the requirements of chapter 37 of Title 39 of the United States Code. *See* 39 U.S.C. § 3705(a)(1). Because the PSRA was enacted on April 6, 2022 (during FY 2022 Quarter 3), the Postal Service's first report responsive to this new statutory requirement was due December 29, 2022, covering FY 2022.

Specifically, 39 U.S.C. § 3703 authorizes the Postal Service to enter into agreements with agencies of any state government, local government, or tribal government to provide property or nonpostal services to the public on behalf of such agencies for non-commercial purposes. As to such agreements, the Postal Service's report must include costs, revenues, rates, and quality of service for each agreement or substantially similar set of agreements. 39 U.S.C. § 3705(a)(1). The Postal Service states that no agreements with state, local, or tribal governments were in effect in FY 2022. FY 2022 ACR at 102.

Additionally, the PSRA specifies that “[t]he Postal Service may establish a program to provide property and nonpostal services to other Government [*i.e.*, federal] agencies within the meaning of section 411<sup>173</sup>], but only if such program provides a net contribution to the Postal Service, defined as reimbursement that covers at least 100 percent of the costs attributable....” 39 U.S.C. § 3704. For the Postal Service's program to provide property and nonpostal services to other Government agencies within the meaning of 39 U.S.C. § 411, the Postal Service's report to the Commission must include costs, revenues, rates, and quality of service<sup>174</sup> for the overall program established under 39 U.S.C. § 3704. 39 U.S.C. § 3705(a)(1). The Postal Service states that “all of the agreements [in effect in FY 2022 under 39 U.S.C. chapter 37] were with federal agencies under preexisting Section 411 authority.” FY 2022 ACR at 102.

As required by 39 U.S.C. § 3705, the Postal Service reported on costs and revenue for the interagency agreements (IAAs) that were in effect during FY 2022.<sup>175</sup> The Postal Service provided rate information required by 39 U.S.C. § 3705(a)(1) in response to CHIR No. 5. Response to CHIR No. 5, questions 5-7; Library Reference USPS-FY22-NP35. In response to CHIR No. 10, the Postal Service publicly reported the number of agreements, revenue, costs, and contribution for the program in FY 2022.<sup>176</sup> As shown in Figure IV-4, in total, there

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<sup>173</sup> Prior to the enactment of the PSRA, the Postal Service's authority for these agreements was governed by 39 U.S.C. § 411, which authorizes the Postal Service to “furnish property and services” to “Executive agencies within the meaning of [5 U.S.C. § 105] and the Government Publishing Office....” 39 U.S.C. § 411. Section 105 of Title 5 of the United States Code specifies that an “‘Executive agency’ means an Executive department, a Government corporation, and an independent establishment” of the U.S. Government, as those terms are defined in 5 U.S.C. chapter 1. 5 U.S.C. § 105.

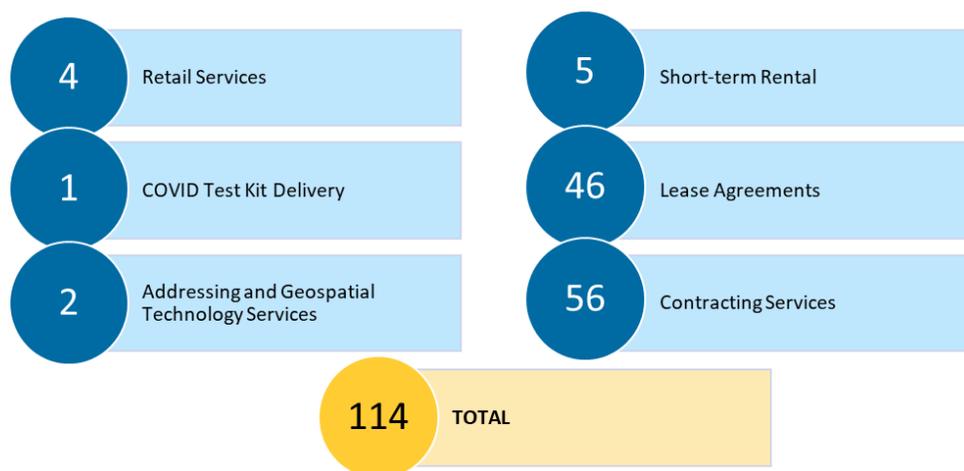
<sup>174</sup> *See infra* Section V.A.5. regarding quality of service.

<sup>175</sup> *Id.*; Library Reference USPS-FY22-NP27, file “USPS\_FY22\_NP27\_Preface.pdf,” at 5.

<sup>176</sup> *See* February 10 Response to CHIR No. 10, questions 8, 11; *id.* Excel file “FY22.IAA.Table.CHIR.10.Q.8.Redacted.xlsx.”

were 114 IAAs in effect in FY 2022. The program as a whole brought in \$1.463 billion in revenue and incurred \$873 million in costs, for a contribution of \$590 million.

**Figure IV-4**  
**Interagency Agreements in Effect During FY 2022**



Source: February 10 Response to CHIR No. 10, question 11.

Given that reporting requirements applied to IAAs were new for FY 2022, the Commission expects that, in the future, all information required by 39 U.S.C. § 3705(a)(1)<sup>177</sup> will be provided along with the ACR and that fewer information requests will need to issue to obtain the statutorily mandated information.

In response to CHIR No. 5, the Postal Service provided disaggregated and agreement-specific information under seal. *See* Response to CHIR No. 5, questions 5-7; Library Reference USPS-FY22-NP35. Subsequently, in response to CHIR No. 10, the Postal Service explained its rationale for requesting non-public treatment of that information.<sup>178</sup> The Postal Service asserts that disaggregated cost, revenue, and contribution information should remain under seal, consistent with 39 U.S.C. § 410(c)(2), which protects the Postal Service from having to disclose “information of a commercial nature, including trade secrets, whether or not obtained from a person outside the Postal Service, which under good business practice would not be publicly disclosed.” *See id.*

The Postal Service explains that each category of the IAAs is “vulnerable to actual or potential competition and is the subject of arms-length negotiations with the other agencies as each agreement is pursued.” February 10 Response to CHIR No. 10, questions

<sup>177</sup> *See infra* Section V.A.5. regarding quality of service.

<sup>178</sup> *See* February 10 Response to CHIR No. 10, questions 8.b.i.-iii.; February 24 Supplemental Response to CHIR No. 10, question 9.b.; March 6 Supplemental Response to CHIR No. 10, question 9.b. (amplifying rationale for requesting non-public treatment specific to each category of agreement).

8.b.i.-iii. Thus, “if [this] information...were to be disclosed publicly, the Postal Service considers it quite likely that it would suffer commercial harm.” *Id.* Additionally, some information may also constitute proprietary information of the third-party agencies with whom the Postal Service has entered into the agreements. *Id.* questions 9.b.i.-iv. Upon request, the Postal Service provided redacted (public) versions of the IAAs that were in effect during FY 2022, as well as the top-line figures concerning the total revenue, cost, and contribution associated with all IAAs in the aggregate displayed above.<sup>179</sup>

Whenever the Postal Service seeks non-public treatment of information appearing in future filings related to IAAs, the Commission expects that Postal Service will file a fully supported application for non-public treatment along with redacted (public) versions of the non-public materials at issue, consistent with the Commission’s rules. *See* 39 C.F.R. §§ 3011.200 *et seq.* If filing a redacted (public) version of each IAA is impracticable due to the quantity of substantially similar agreements, the Postal Service may file a motion seeking to submit a sample redacted (public) version for each category.

As noted above, 39 U.S.C. § 3704 requires that the IAA program as a whole provide contribution to the Postal Service, *i.e.*, reimbursement that covers at least 100 percent of the costs attributable.<sup>180</sup> Through several CHIRs, the Commission sought information in order to better understand the underlying cost models and methodologies used by the Postal Service in calculating and distributing costs to IAAs.<sup>181</sup> Based on the Postal Service’s responses,<sup>182</sup> it appears that the underlying cost models and methodologies employed by the Postal Service are, in some instances, underdeveloped. Nevertheless, for purposes of the first compliance review of the overall IAA program pursuant to 39 U.S.C. § 3705(e)(2), the record reflects that the total reimbursement the Postal Service received from other Federal agencies for services rendered pursuant to IAAs effective in FY 2022 exceeded the total estimated cost associated with providing such services, which complies with 39 U.S.C. § 3704.

Consistent with 39 U.S.C. § 3705(b)(2), as the Commission works to implement the provisions of new chapter 37 of Title 39 of the United States Code, the Commission recognizes that there is a need to establish an accepted methodology (or methodologies) for calculating the revenue and attributable costs associated with IAAs entered into by the Postal Service as authorized under 39 U.S.C. §§ 3703 and 3704 in the future.

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<sup>179</sup> *See* February 24 Supplemental Response to CHIR No. 10, question 9.b.; March 6 Supplemental Response to CHIR No. 10, question 9.b. For two categories, lease agreements and contracting services, the Postal Service submitted one redacted sample version of an agreement that is representative of the category as a whole. *See* Order Granting Motion for Extension of Time to Respond and for Partial Reconsideration of Question 9 of Chairman’s Information Request No. 10, February 10, 2023 (Order No. 6440) (approving the Postal Service’s request to submit one redacted sample version of an agreement for these categories).

<sup>180</sup> 39 U.S.C. § 3704. The Commission notes that agreements with any agency of any state, local, or tribal government entered into pursuant to 39 U.S.C. § 3703(a) must also provide a net contribution to the Postal Service. 39 U.S.C. § 3703(a)(2).

<sup>181</sup> *See* CHIR No. 2, question 7; CHIR No. 5, question 7; CHIR No. 10, questions 11-21.

<sup>182</sup> *See* Response to CHIR No. 2, question 7; Response to CHIR No. 5, question 7; February 10 Response to CHIR No. 10, questions 11-21.

*Consistent with 39 U.S.C. § 3705(b)(2), the Commission directs the Postal Service to develop a proposed methodology (or methodologies) for calculating and attributing costs and revenue to interagency agreements authorized under 39 U.S.C. §§ 3703 and 3704. The Postal Service shall initiate a rulemaking proceeding (or proceedings) concerning such methodology (or methodologies) in accordance with 39 C.F.R. § 3050.11 no later than May 31, 2023.*

# CHAPTER V. SERVICE PERFORMANCE

## A. Service Performance Results

### 1. Introduction

Before the PAEA, the Postal Service had internal delivery service standards for major types of mail but lacked statutory guidance on how to establish delivery standards and did not measure and report delivery performance for most types of mail.<sup>183</sup> The PAEA required the Postal Service to establish an initial set of service standards for Market Dominant products to take effect within 1 year of the PAEA's enactment. 39 U.S.C. § 3691(a). These service standards were to be established "by regulation" and "in consultation with the Postal Regulatory Commission." *Id.* The Postal Service was permitted "from time to time thereafter by regulation [to] revise" these standards.<sup>184</sup> The PAEA also required the Postal Service to develop a "plan for meeting those [service] standards," within which it was to "establish performance goals" for its delivery performance. PAEA § 302(a), (b)(1), 120 Stat. at 3219.

The Postal Service promulgated its initial service standards in 2007.<sup>185</sup> As designed by the Postal Service, the standards specify the amount of time within which a customer may ordinarily expect that a particular mailpiece will be delivered, in accordance with a detailed set of "business rules."<sup>186</sup> The Postal Service has since revised these standards several times, including by lengthening the service standards for First-Class Mail and end-to-end Periodicals by up to two days, effective October 1, 2021 (the beginning of FY 2022)<sup>187</sup> and

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<sup>183</sup> United States Government Accountability Office, Report No. GAO-06-733, U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement, published July 2006, at 2-4, available at <https://www.gao.gov/assets/260/250894.pdf> (GAO-06-733).

<sup>184</sup> *Id.* Any "change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis" requires an advisory opinion by the Commission. *Id.* § 3661(b).

<sup>185</sup> See Modern Service Standards for Market-Dominant Products, 72 Fed. Reg. 72,216 (Dec. 19, 2007) (codified at 39 C.F.R. parts 121 and 122).

<sup>186</sup> *Id.* at 72,220. The Postal Service defines service standards as "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)." United States Postal Service *Publication 32, Glossary of Postal Terms*, July 2013, available at [http://about.usps.com/publications/pub32/pub32\\_terms.htm](http://about.usps.com/publications/pub32/pub32_terms.htm) (Postal Service *Glossary of Postal Terms*). "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

<sup>187</sup> See Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); see also Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1, Advisory Opinion). The Postal Service estimated that its proposed changes would impact 38.5 percent of First-Class Mail and 7 percent of Periodicals. See Docket No. N2021-1, Advisory Opinion at 1. The Postal Service also requested advisory opinions from the Commission regarding revisions to service standards for three Competitive Products, First-Class Package Service, USPS Retail Ground, and Parcel Select Ground. See Docket N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2, Advisory Opinion); Docket No. N2022-1, Advisory Opinion on the Service Standard Changes Associated with USPS Retail Ground and Parcel Select Ground, June 9, 2022, (Docket No. N2022-1, Advisory Opinion). The Postal Service implemented these new service standards during FY 2022: on May 1, 2022, for First-Class Package Service and on August 1, 2022, for USPS Retail Ground and Parcel

most recently by changing the critical entry times (CETs) for certain categories of Periodicals, effective January 29, 2023 (Quarter 2 of FY 2023).<sup>188</sup>

As required by section 302 of the PAEA, the Postal Service also prepared a plan for meeting its service standards and, as a part of that plan, developed a set of percentage on-time performance targets.<sup>189</sup> Since enactment of the PSRA on April 6, 2022, the Postal Service is now required to establish its targets within 60 days of the beginning of the fiscal year for which they will apply. 39 U.S.C. § 3692(a)(1). The Postal Service explains that targets are set by the Board of Governors of the Postal Service, taking into account “prior year performance and expected operational improvement based on known network and operational changes.”<sup>190</sup>

Each year, the Commission must “make a written determination” as to “whether any service standards in effect during such year were not met.” 39 U.S.C. § 3653(b)(2). In this vein, 39 U.S.C. § 3692(a)(2) requires the Postal Service to “provide the previous fiscal year’s performance targets in its Annual Compliance Report to the Postal Regulatory Commission for evaluation of compliance for each product.”

To make this assessment, the Commission compares the percentage of mailpieces that achieve the stated service standard against the targets established by the Postal Service.

The Postal Service intends to eventually raise its service performance targets to 95 percent on-time for all Market Dominant products consistent with its Delivering for America (DFA) plan. *See* Library Reference USPS-FY22-29 Preface at 4-5. It asserts that its ability to do so depends on successful implementation of the ongoing network improvements laid out in the DFA plan and, as such, it will set interim goals intended to show continued progress towards its 95 percent target goal. *Id.* However, it notes that some targets are already set at 95 percent while others will reach this level over the next few years. *Id.* at 5.

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Select Ground. United States Postal Service, U.S. Postal Service Implements New First-Class Package Service Standards and Updates Priority Mail Service Standards, April 18, 2022, available at <https://about.usps.com/newsroom/national-releases/2022/0418-usps-implements-new-first-class-package-service-standards.htm>; United States Postal Service, Postal Service Accelerates Delivery for Retail Ground, Parcel Select Ground Products, June 23, 2022, available at <https://about.usps.com/newsroom/national-releases/2022/0418-usps-implements-new-first-class-package-service-standards.htm>. Previously, the Postal Service requested that the Commission render an advisory opinion regarding the “Mail Processing Network Rationalization” initiative beginning in FY 2012 and the “Standard Mail Load Leveling” initiative beginning in FY 2014. *See* Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012 (Docket No. N2012-1, Advisory Opinion) (analyzing the Postal Service’s proposed changes to the service standards for multiple Market Dominant mail classes); Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014 (Docket No. N2014-1, Advisory Opinion) (analyzing the Postal Service’s proposed changes to the manner of processing and dispatching Standard Mail (now referred to as “USPS Marketing Mail”) dropped off at Destination Sectional Center Facilities on Fridays and Saturdays).

<sup>188</sup> *See* United States Postal Service, *Changes to Periodical Critical Entry Times, Effective January 29, 2023*, USPS Postal Pro (December 29, 2022), available at <https://postalpro.usps.com/node/11634> *see also* Docket No. N2022-2, Advisory Opinion on Changes to the Critical Entry Times for Certain Categories of Periodicals, November 30, 2022 (Docket No. N2022-2, Advisory Opinion).

<sup>189</sup> *See* United States Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan*, June 2008, at 7; The Three R’s of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness, Hearing Before the Subcomm. on Federal Workforce, Postal Service, and Dist. of Columbia of the H. Comm. on Oversight and Gov’t Reform, 110th Cong., at 47 (July 24, 2008) (statement of Patrick R. Donahoe, Deputy Postmaster General/Chief Operating Officer, United States Postal Service) (stating that the Postal Service would fulfill its section 302 mandate by, among other things, establishing “‘percentage on-time’ targets [that] will be shared with the Commission and will serve as the basis for its annual review of [the Postal Service’s] service standards compliance[.]”).

<sup>190</sup> Library Reference USPS-FY22-29, December 29, 2022, PDF file “PREFACE folder FY22-29.pdf,” at 5 (Library Reference USPS-FY22-29 Preface).

Figure V-1 categorizes Market Dominant products according to whether or not they achieved their annual service performance targets for FY 2022.

**Figure V-1  
Market Dominant Products Service Performance Results, FY 2022**



Source: Library Reference USPS-FY22-29, PDF file “FY22-29 Service Performance Report.pdf,” at 3-4, 9, 17, 30 (FY 2022 Service Performance Report).

To put these results into context, this chapter begins with an overview of the factors in FY 2022 that affected the service performance of all Market Dominant products. Next, the Commission describes the systems the Postal Service uses to measure service performance for Market Dominant products. Then, the Commission discusses the Postal Service’s FY 2022 service performance results by class of mail.

## 2. Issues Affecting Service Performance for All Market Dominant Products in FY 2022

### a. Overview

During FY 2020 and FY 2021, the COVID-19 pandemic had a substantial impact on service performance, specifically by reducing employee availability, disrupting its contract transportation arrangements, and altering the traditional mail mix. *See* FY 2021 ACD at 108. While the worst of these impacts abated in FY 2022, these factors continued to have some effect on the Postal Service's Market Dominant service performance results. Moreover, as in previous years, because these issues in large part overlapped, their combination exacerbated the extent and duration of the individual impacts. Each of these factors are discussed in detail below.

### b. Reduced Employee Availability

The Postal Service explains generally that the impact of the COVID-19 pandemic on employee availability has lessened in FY 2022 when compared to FY 2021. Response to CHIR No. 3, question 12.b. Moreover, it states that, because of “conversions and hiring,” mail processing staffing was greater for most months in FY 2022.<sup>191</sup> Nevertheless, according to the Postal Service, “[a]lthough the employee availability shortages caused by the coronavirus omicron variant began to subside after Q1 of FY 2022,” staffing challenges—particularly an inability to hire part-time workers—have persisted due to the national labor shortage.<sup>192</sup>

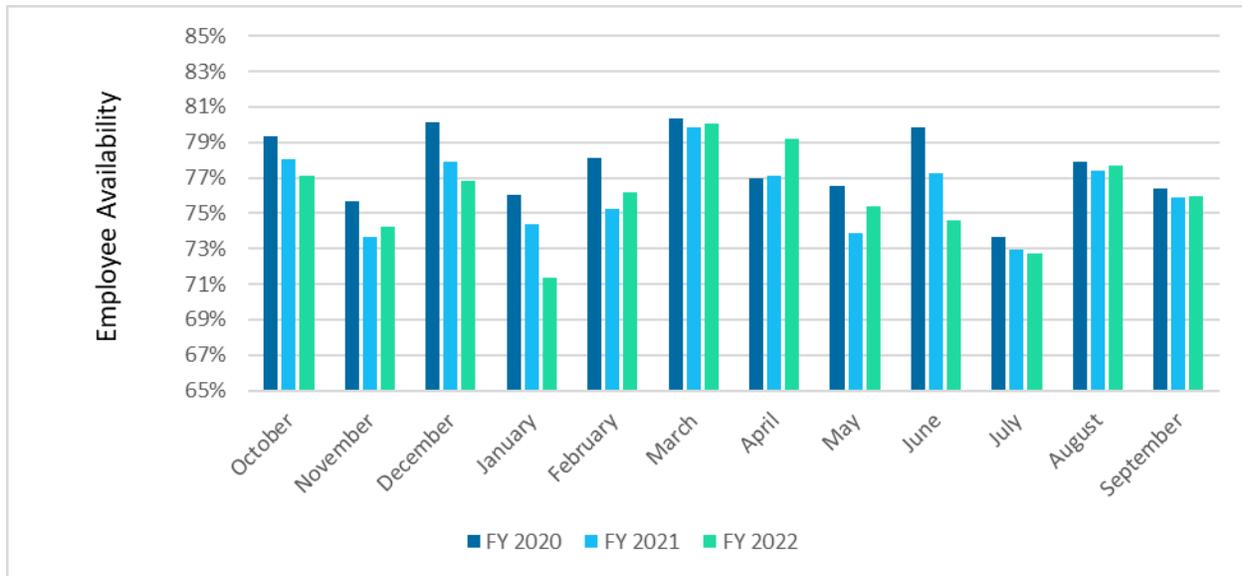
Figure V-2 presents overall employee availability by month for FY 2020, FY 2021, and FY 2022.

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<sup>191</sup> *Id.* “Conversions” refers to the process under which the Postal Service allows pre-career employees who remain employed for two years to be automatically transitioned to career status. *See* Response to CHIR No. 7, questions 29 a.-b.

<sup>192</sup> *See* FY 2022 ACR at 54-55; FY 2022 Service Performance Report at 6.

**Figure V-2**  
**Employee Availability, by Month, FY 2020–FY 2022**

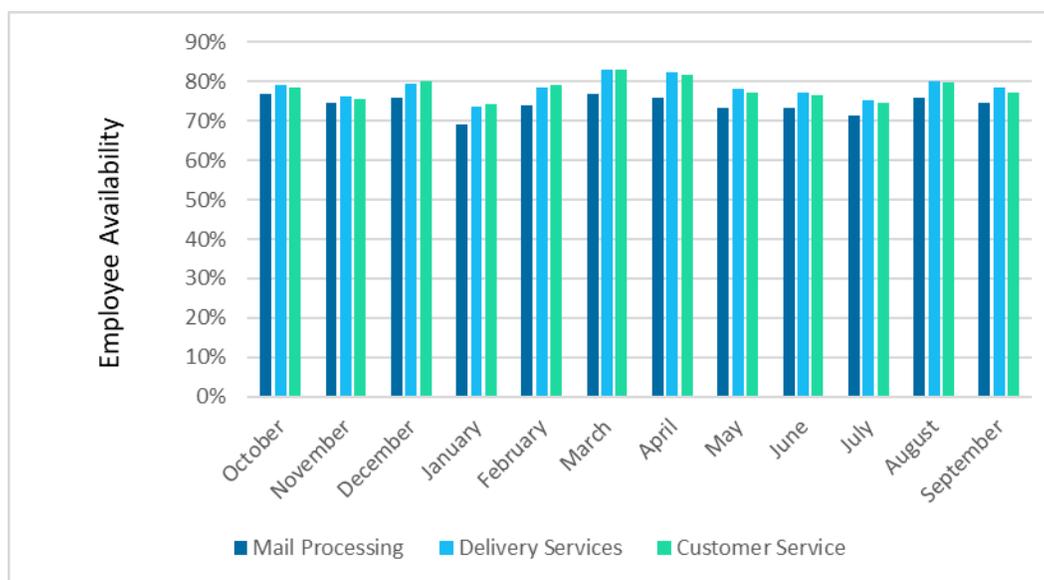


Source: Response to CHIR No. 3, question 3, Excel file “CHIR.3.Q.3.FY22\_EmployAvailbly.xlsx;” Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 6, February 1, 2022, question 4 (Docket No. ACR2021, Response to CHIR No. 6), Excel file “CHIR.6 Q.4\_Data\_CHIR.1 Q.13b.xlsx” (Docket No. ACR2021, Response to CHIR No. 6); Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-7, 10-20 of Chairman’s Information Request No. 6, February 4, 2021, question 2, Excel file “Q.2 Employee Availability Data.xlsx” (Docket No. ACR2020, February 4 Response to CHIR No. 6).

On average, employee availability decreased in FY 2022 compared to both FY 2020 and FY 2021. In FY 2022, the Postal Service reported average employee availability of 75.95 percent, 1.61 percentage points less than in FY 2020, and 0.2 percentage points less than in FY 2021. However, in FY 2022, employee availability improved compared to FY 2021 in 7 months out of the year. For all 3 years, the maximum employee availability occurred in March, with employee availability at approximately 80 percent. In FY 2022, the minimum employee availability occurred in January at 71.39 percent, while in both FY 2020 and FY 2021, the minimum employee availability occurred in July, at 73.63 percent and 72.95 percent availability, respectively. *Id.*

Figure V-3 displays employee availability in FY 2022 by function: mail processing (Function 1), delivery services (Function 2), and customer service (Function 4).

**Figure V-3**  
**Employee Availability, by Function, by Month, FY 2022**



Note: A complete list of the Postal Service's functions and Labor Distribution Codes appears in Docket No. R2006-1, Library Reference USPS-LR-L-55, May 3, 2006, folder "LR-L-55 electronic version (.doc & .excel)," folder "lr-l-55 part1," PDF file "\_Labor Distribution Codes.pdf."

Source: Response to CHIR No. 3, question 3, Excel file "CHIR.3.Q.3.FY22\_EmployAvailbty.xlsx."

Figure V-3 provides insight into the fluctuation of employee availability, at the national level, throughout FY 2022. These data indicate that the Postal Service's national employee availability was consistently lower for mail processing than delivery services and customer service. National employee availability for mail processing (Function 1), delivery services (Function 2) and customer service (Function 4) were most challenged during January 2022.

In addition to this national reduction in employee availability, the Postal Service refers to "numerous pockets of hot spots at different times." Response to CHIR No. 6, question 3. The Postal Service explains that if one geographic hot spot has insufficient employee availability to clear the mail, mail destined for any number of downstream facilities will be delayed. *Id.* However, the Postal Service notes that "the prevalence of employee availability hot spots has abated as the effects of COVID-19 have lessened." *Id.*

The Postal Service has previously explained that monthly employee availability of less than 70 percent can be "empirically [ ] most effective [in] distinguishing particularly-challenged Districts...."<sup>193</sup> Figure V-4 presents districts that experienced more than 1 month of employee availability below 70 percent during FY 2022.

<sup>193</sup> Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 11, February 11, 2021, question 13.b.

**Figure V-4**  
**Districts with Multiple Months of Employee Availability Below 70 Percent, FY 2022**

WESTSHORES DISTRICT	
Processing	January 2022 - 67.46%
	July 2022 - 68.74%
WESTPAC DISTRICT	
Logistics	January 2022 - 53.85%
	October 2021 - 52.38%
SOUTHWEST DISTRICT	
Logistics	January 2022 - 67.70%
	February 2022 - 68.51%
SOUTHERN DISTRICT	
Retail & Delivery	July 2022 - 67.91%
	October 2021 - 62.38%
SOUTHEAST DISTRICT	
Processing	January 2022 - 65.72%
	July 2022 - 69.43%
PUERTO RICO DISTRICT	
January 2022 - 69.98%	
July 2022 - 67.72%	
NEW YORK METRO DISTRICT	
Processing	January 2022 - 63.78%
	July 2022 - 68.02%
LAKESHORES DISTRICT	
Processing	January 2022 - 67.75%
	July 2022 - 69.27%
CHESAPEAKE DISTRICT	
Processing	January 2022 - 65.78%
	July 2022 - 69.87%
Logistics	January 2022 - 63.93%
	November 2021 - 68.62%

Source: Response to CHIR No. 3, question 4.a., Excel file "ChIR.3 Q4 – Available by Month.xlsx."

In FY 2022, fewer districts experienced monthly employee availability below 70 percent than in FY 2021. Nine districts experienced multiple months of employee availability below 70 percent, but no district experienced more than 2 months of employee availability below 70 for any function. The WestPac District experienced the lowest employee availability during FY 2022 with January availability at 53.85 percent and October availability at 52.38 percent. January was a particularly challenging month for the Postal Service with 8 districts reporting employee availability below 70 percent.

The Postal Service is unable to quantify the impact of employee availability on service performance. Response to CHIR No. 6, question 4. However, it identifies several steps that it took to address issues with employee availability. The Postal Service explains generally that a continuous hiring process is required to maintain the career workforce, replace attrition, and "provid[e] flexibility through part-time (pre-career) workforce."<sup>194</sup> It states that, though staffing levels for pre-career employees remained consistent in most areas of

<sup>194</sup> Response to CHIR No. 7, questions 29.a.-b. "Through the collective bargaining process, the Postal Service negotiated a provision that provides a path to career employment for all pre-career employees who remain in [the Postal Service's] employ for 24 months. The current agreements allow pre-career employees, who stay employed with the Postal Service for two years, to be automatically converted to career status." *Id.*

the country, some regions experienced local staffing shortages “where the labor market for temporary workers were impacted by factors such as low unemployment, high cost of living, and low labor force participation.” *Id.* In order to mitigate these shortages, the Postal Service asserts that it attempted to stabilize its career workforce by negotiating a collective bargaining agreement under which pre-career employees who remain employed for 24 months are automatically converted to career status, including 48,000 such employees in FY 2022. *Id.* The Postal Service also explains that it worked with the National Association of Letter Carriers to identify “‘pockets’ of hard to hire” in 237 locations, after which the parties negotiated joint Memoranda of Understanding allowing for the external hire of 3,500 new employees to career positions. *Id.* Additionally, the Postal Service asserts that it increased its recruitment efforts generally. *Id.*

### c. Transportation Challenges

Transit has been a major area of concern in the Commission’s past evaluations of the Postal Service’s service performance results.<sup>195</sup> The COVID-19 pandemic exacerbated the Postal Service’s challenges relating to transporting mailpieces that were destined for an address outside of the local service area from which the mailpiece was mailed.<sup>196</sup> After completing origin processing, the Postal Service assigns mail to the air or surface network for transportation to a facility closer to the addressee. Because the Postal Service does not operate its own aircraft, it contracts with commercial airlines to rent space for mail on passenger flights as well as cargo-only flights.<sup>197</sup> To move mail to the next facility via the surface network, the Postal Service may use contractors or Postal Service career employees as drivers. OIG Report No. 20-144-R20 at 8.

The Postal Service states that it considers surface transportation to be less expensive and more reliable than air transportation. FY 2022 ACR at 49. As such, the Postal Service asserts that it is working to optimize “surface transportation to increase service reach, enable efficient surface routes, increase capacity utilization, and achieve operating plans.” FY 2022 Service Performance Report at 6. In this vein, in order to promote a shift from air to surface transportation, it implemented new service standards for certain First-Class Mail and Periodicals. *Id.* It states that it is also “focus[ed] on merging letter and flat products into streamlined, shape-based mailflows as opposed to class-based mailflows” in an effort to “increase density in containers and trucks and facilitate greater use of ground transportation.”<sup>198</sup> The Postal Service also explains that local Divisions have been working with Headquarters Logistics to optimize surface transportation schedules, including by

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<sup>195</sup> See, e.g., FY 2021 ACD at 112-17; FY 2020 ACD at 108-16; FY 2019 ACD at 106-12, 119-21.

<sup>196</sup> Local service area, or local zone, refers to a nonnumbered zone that applies to mail deposited at any Post Office for delivery to addresses within the delivery area of that Post Office. This includes ZIP Codes assigned to postal facilities, Post Office Box sections, Caller Service, vertical improved mail units in buildings, and delivery units. Postal Service *Glossary of Postal Terms*.

<sup>197</sup> United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, at 12, available at [https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS\\_Delivering-For-America.pdf](https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf) (“The Postal Service does not own planes and is forced to rely on third parties for air transport.”); see also United States Postal Service, Office of Inspector General, Report No. 20-144-R20, *Transportation Network Optimization and Service Performance*, June 5, 2020, at 8, available at <https://www.uspsoig.gov/sites/default/files/reports/2023-01/20-144-R20.pdf> (OIG Report No. 20-144-R20).

<sup>198</sup> Library Reference USPS-FY22-29, PDF file “Division Reports – December 2022.pdf,” at 2 (FY 2022 Division Report).

identifying “opportunities to create new service-responsive surface lanes to reduce reliance on the air network.” FY 2022 Division Report at 3-4. Additionally, according to the Postal Service, “[t]rue transit-related root cause[] failures such as contractor failures are shared by the Divisions in order to develop mitigation plans.” *Id.* at 3.

Though the Postal Service states that the COVID-19 pandemic challenged the Postal Service’s ability “to secure highway contract routes,” it maintains that the driver shortage in early FY 2022 did not actually impact its attempts to shift volume from air to surface transportation. *See* FY 2022 ACR at 54-55; Response to CHIR No. 7, question 29.c. The Postal Service notes that air volume was reduced by approximately 50 percent in FY 2022, primarily by shifting it to existing surface transportation. Response to CHIR No. 7, question 29.c. It also explains that “Freight auction”—a system in which the Postal Service can digitally retain *ad hoc* transportation—was “used to backfill omitted service and supplement in cases where suppliers required additional time to acquire assets or staffing needed to support new or modified contracts.” *Id.* question 29.c.ii.

The Postal Service tracks surface trips that arrive more than 4 hours late, referred to as Critically Late Trips (CLTs).<sup>199</sup> “The CLT is identified by [comparing] the actual arrival scan [to the] scheduled arrival scan at the destination facility.”<sup>200</sup>

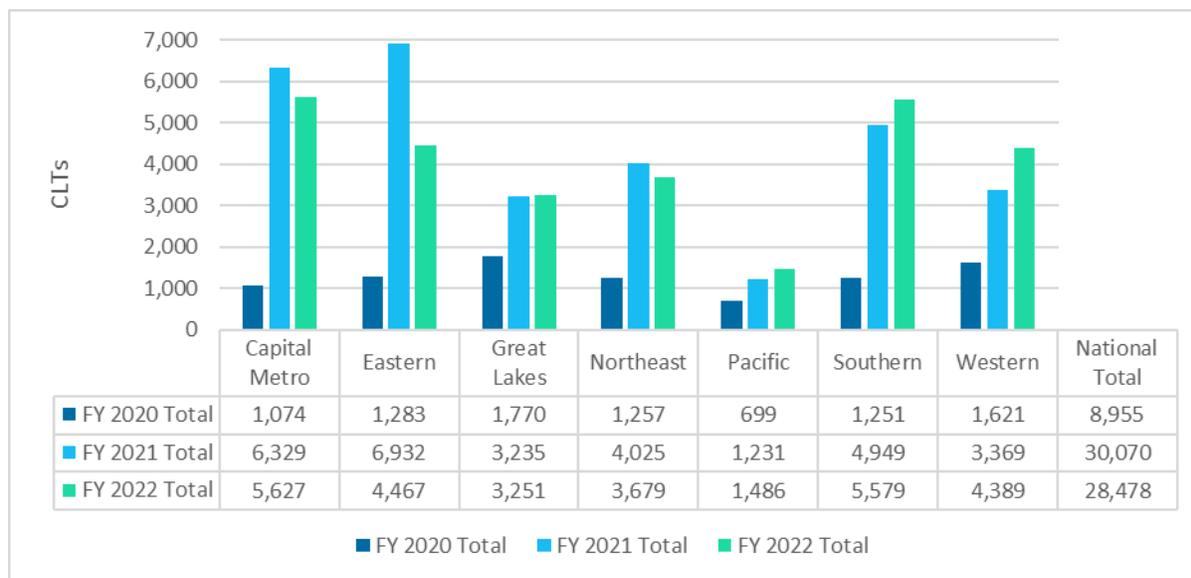
Figure V-5 illustrates the number of CLTs for First-Class Mail on Highway Contract Routes (HCRs) on an annual basis for FY 2020, FY 2021, and FY 2022.

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<sup>199</sup> Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-20 of Chairman’s Information Request No. 22, November 15, 2016, question 12.b.i.

<sup>200</sup> Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman’s Information Request No. 2, January 17, 2018, question 7.b.iii.; *see* Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-41 of Chairman’s Information Request No. 4, January 24, 2020, question 30.b.

**Figure V-5**  
**First-Class Mail CLTs for HCRs, by Area and Nation, FY 2020–FY 2022**



Source: Library Reference USPS-FY22-29, Excel file "CLT FY22 11.20.2022.xlsx;" Library Reference USPS-FY21-29, December 29, 2021, Excel file "FY21 FCM Q3 CLT.xlsx," tab "FY21;" Library Reference USPS-FY20-29, December 29, 2020, Excel file "FY20 FCM Q3 CLT Natl Area Dist.xlsx," tab "4.c.3 CLT;" Docket No. ACR2019, Library Reference USPS-FY19-29, December 27, 2019, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q4;" see also Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 19, February 24, 2022, question 1.

The number of nationwide First-Class Mail CLTs for HCRs has fluctuated significantly over the last several years, increasing from 8,955 CLTs in FY 2020 to 30,070 CLTs in FY 2021, then decreasing slightly to 28,478 in FY 2022. The Capital Metro and Southern Districts reported the most of these CLTs with approximately 5,600 CLTs each in FY 2022. Compared with FY 2021, half the districts experienced fewer CLTs, while the other half experienced an increase in CLTs.

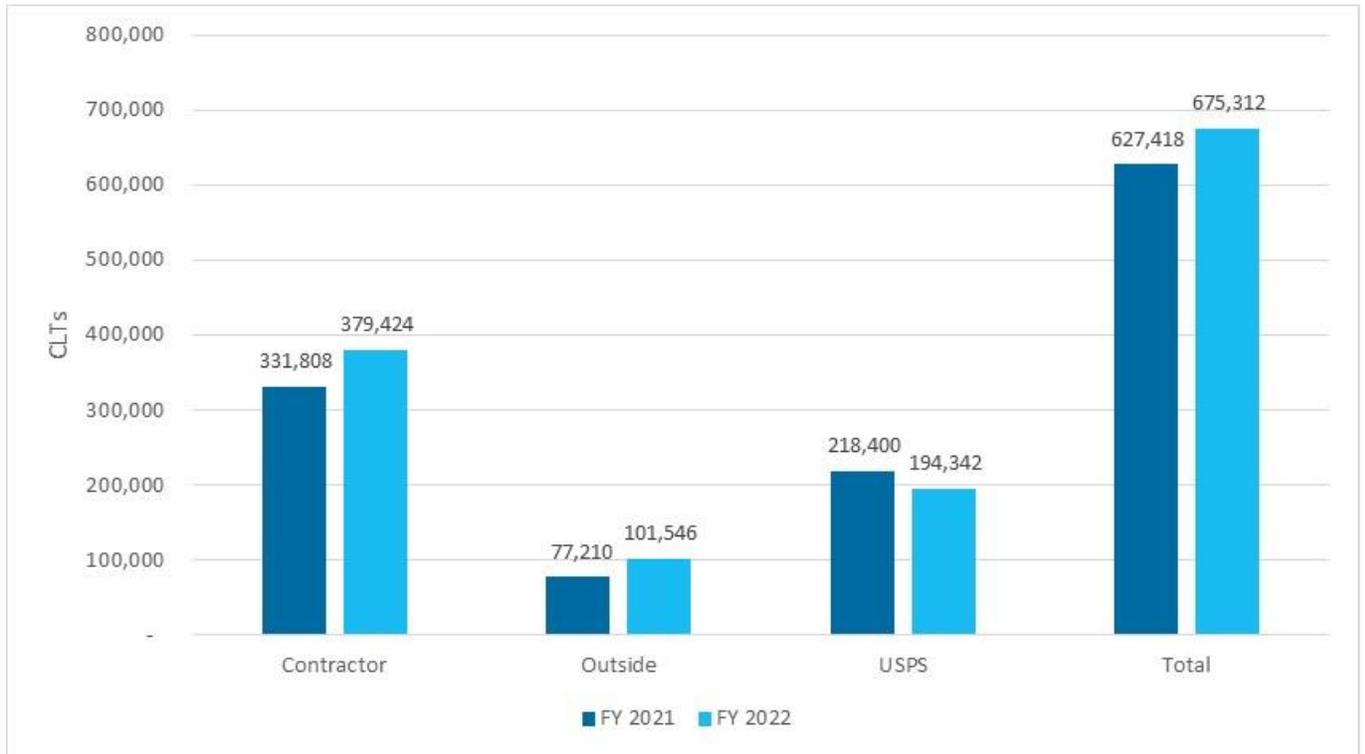
The cause for a given CLT is determined by platform personnel during operations using their own observations and information from the supplier operating the trip.<sup>201</sup> CLTs designated as caused by the Postal Service include those related to dock congestion and operations, "late inbound [and] late outbound," dock personnel issues, mail processing issues, late processing, cancelled trips, failure to bring mail to the loading dock, equipment and mechanical failures, "station/customer service op[erations]," customer delay, schedule failure, driver unavailability, "load after depart," and "late inbound PVS."<sup>202</sup> CLTs designated as caused by outside forces are those due to "traffic, weather, construction, and accidents." Docket No. ACR2021, Response to CHIR No. 9, question 2. The Postal Service does not define what specific incidents constitute contractor failures. *See id.*

<sup>201</sup> Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, January 18, 2022, question 28.a.

<sup>202</sup> See Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 9, February 7, 2022 (Docket No. ACR2021, Response to CHIR No. 9), Excel file "CHIR.9 Q2\_Late Trip Reasons FY21 vs FY20.xlsb."

Figure V-6 shows the number of total CLTs for all products, disaggregated by responsible party for FY 2021 and FY 2022.

**Figure V-6**  
**Total CLTs, by Responsible Party, FY 2021–FY 2022**

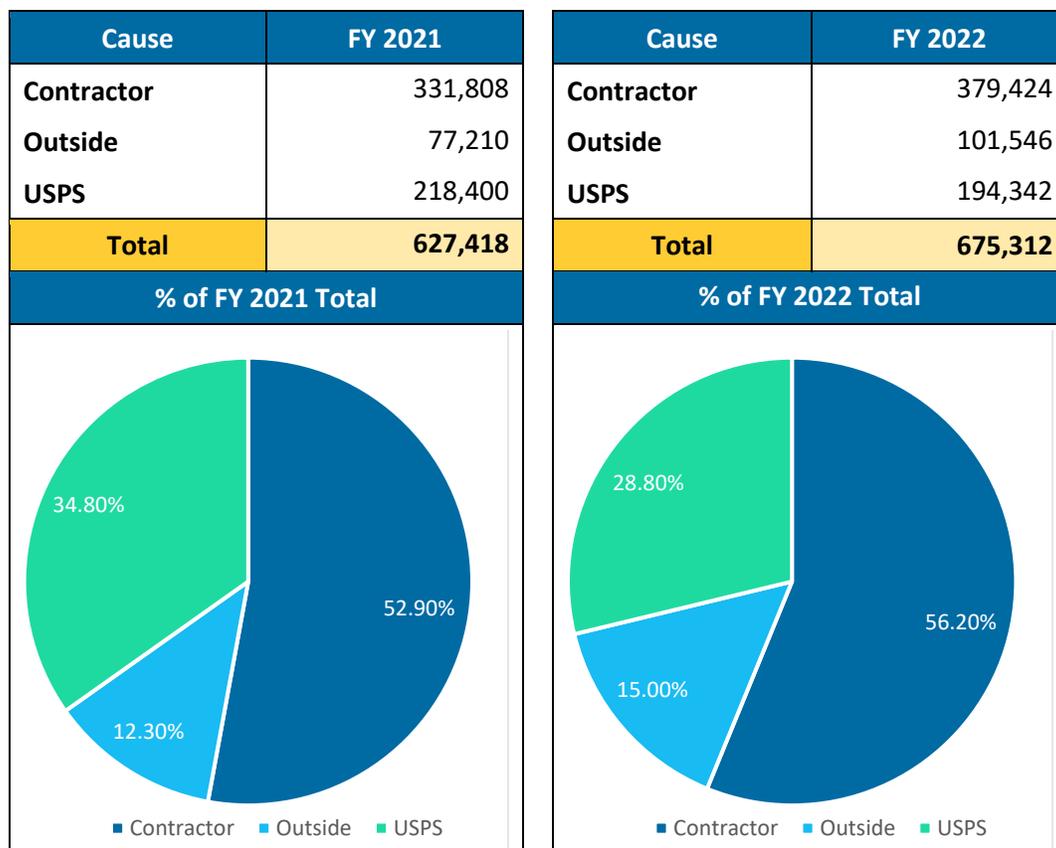


Source: Response to CHIR No. 3, question 5, Excel file “ChIR.3.Q.5.CLT.FY2022.xlsx.”

While total CLTs increased between FY 2021 and FY 2022, Postal Service-caused CLTs decreased. Contractor-caused CLTs increased 14.4 percent in FY 2022, from 331,808 CLTs in FY 2021 to 379,424 CLTs in FY 2022. CLTs caused by outside factors (*e.g.*, weather delays) increased from 77,210 in FY 2021 to 101,546, which represents an increase of 31.5 percent.

Figure V-7 presents the distribution of causes as a percent of total annual CLTs for FY 2021 and FY 2022.

**Figure V-7  
Total CLTS and Proportional Representation, by Responsible Party, FY 2021–FY 2022**



Source: Response to CHIR No. 3, question 5, Excel file “CHIR.3.Q.5.CLT.FY2022.xlsx.”

These data illustrate that the distribution of CLT causes remained relatively consistent between FY 2021 and FY 2022, with contractors responsible for the majority of CLTs in both years.

Although the Postal Service tracks the number of CLTs, it remains unable to quantify the impact of CLTs on service performance results. *See* Response to CHIR No. 6, question 5. The Postal Service states that it attempted to remediate CLTs through initiatives focused on achieving operational clearance targets, addressing issues with supplier performance, and training and developing employees. *See* Response to CHIR No. 3, question 5.b.

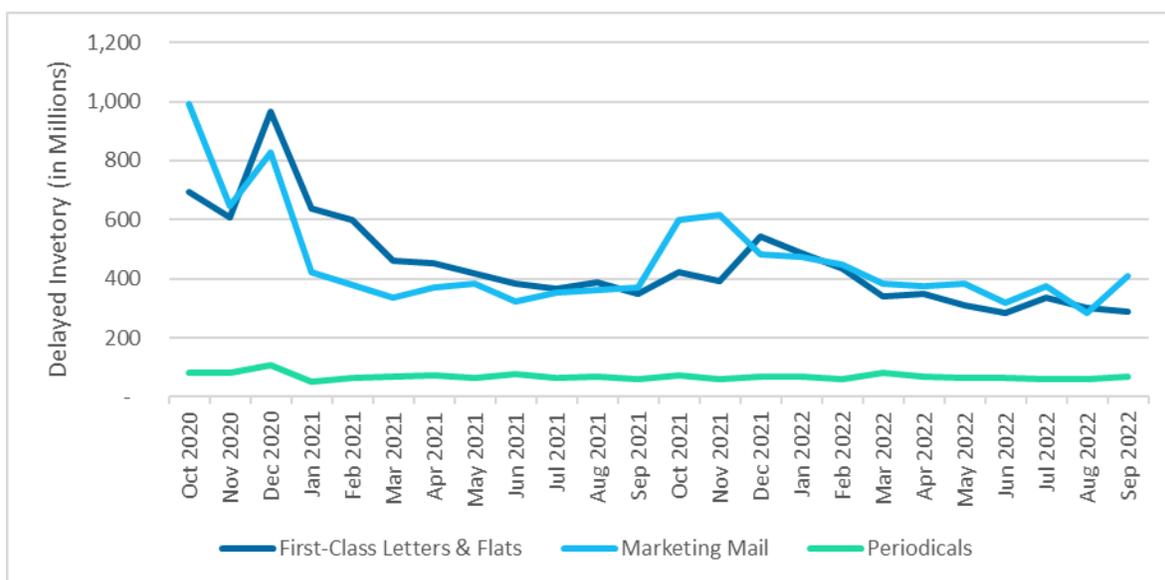
In terms of CLTs caused by late processing and containers that were not ready to load, the Postal Service states that it retains the additional processing employees that were added in the past two years and “continues to increase package sort capacity and adjust and refine each facility’s operating plan in order to ensure that each facility meets necessary clearance times to depart trips to meet service standards.” *Id.* According to the Postal Service, it measures “Operating Plan Precision” in an effort to understand how each facility is

completing distribution operations in a timely manner. *Id.* It has also undertaken daily review of all routings in an effort to increase “insight into routing, labeling, and dispatching of mail, which has further streamlined and improved the overall routing and service performance.” *Id.*

In terms of CLTs related to supplier performance, the Postal Service states that it has continued to utilize Silver Track Training (STT) sessions for field personnel. *Id.* According to the Postal Service, these training sessions are for all logistics professionals and are designed to increase their knowledge of how to improve and manage supplier performance. *Id.* The Postal Service states that since March of 2022, 480 employees have completed this STT, with the result that the number of cancelled trips has decreased. *Id.* The Postal Service also continues to assert that it intends to implement liquidated damage contract clauses to address supplier-caused CLTs and it explains that it is developing a new transportation management system that “will provide a robust measuring tool to identify late shipments and begin to perform a root cause analysis on the failure” in order to address supplier responsibility. Response to CHIR 3, question 6.b.

As CLTs can result in delayed inventory, negatively impacting service performance, the Commission examines monthly inventory delays. Figure V-8 shows the delayed inventory by month for FY 2021 to FY 2022.<sup>203</sup>

**Figure V-8**  
**Delayed Inventory, by Month, FY 2021–FY 2022**



Source: Response to CHIR No. 4, question 27.a., Excel file “ChIR.4.Q27.FY22 Delayed Inventory.xlsx.”

<sup>203</sup> “Delayed inventory” is defined as “mailpieces that remain on hand at their facility and that have not received their next expected processing operation scan by 0659 for destinating final processing operations and 0600 for all other operations.” Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman’s Information Request No. 22, February 28, 2022, question 1.

As Figure V-8 illustrates, the severe delays in inventory experienced at the beginning of FY 2021 did not recur in FY 2022. Nonetheless, delays in inventory in the first quarter of FY 2022 were higher than the remainder of the fiscal year. In both years, December was the most challenging month for First-Class Letters and Flats, but the number of inventory delays were 56 percent lower in December 2021 compared with December 2020.

In FY 2022, for Marketing Mail, the most significant delays in inventory occurred in October and November, each with approximately 600 million delays. For comparison, in FY 2021, delayed inventory for Marketing Mail peaked in October 2020, with nearly one billion inventory delays experienced in that month. For Periodicals, inventory delays ranged from a low of 59 million pieces in August 2022 to a high of 81 million pieces in March 2022.

d. Operational Changes by the Postal Service

In the previous years in which the COVID-19 pandemic impacted the Postal Service, unprecedented package volume contributed to decreased Market Dominant service performance during the Postal Service's peak season and subsequent months. *See* FY 2021 ACD at 117. Specifically, as a result of the COVID-19 pandemic, many people increased their reliance on e-commerce and mail-ordering, which consequently increased the demand for packages in FY 2020 and FY 2021, leading to a variety of compounding issues. *Id.* More information regarding these mail mix changes and their effects on service performance is available in the Commission's FY 2021 ACD. *See* FY 2021 ACD at 117-19.

As a result of these and other challenges, the Postal Service began to implement a variety of operational changes. For instance, the Postal Service reports initiating "extensive efforts to plan for the FY 2022 peak season" and to handle increased package volume through "facility space upgrades and procurement of new processing equipment." FY 2022 ACR at 49-50. Specifically, these efforts included "acquiring long-term Package Support Annexes (PSAs), continuing to purchase additional package sorting machines in sites with capacity shortfalls in order to process more volume by machine and less manually, and creating a larger standing career workforce by converting non-career employees to career in Mail Processing." FY 2022 Division Report at 1. The Postal Service explained that, while these strategies were driven by the influx of packages, they have benefitted service performance for all mail products. *Id.*

The Postal Service also emphasizes its efforts to "right-size" its mail processing equipment to fit current and projected mail volumes. *See* FY 2022 Service Performance Report at 13. Specifically, this involved removing excess FSS machines that were not needed for the current Flats volume. *Id.* The Postal Service asserts that "throughputs improved modestly in sites that removed one or more FSS machine and continued FSS processing" and "[a]cross these sites, average throughput improved from 13,123 pieces per hour in the first four weeks of FY 2021 to 13,480 pieces per hour in the same period of FY 2022." Response to CHIR No. 3, question 8.

The Postal Service also states that it attempted to improve service performance by adhering to site-specific operating plans (SSOPs). *See* FY 2022 Service Performance Report

at 12. In FY 2021, the Postal Service worked with each site that processes letters and flats to create a SSOP that could “streamline operations and set predictable, service-responsive, achievable goals for operational clearance times.” *Id.* According to the Postal Service, this represented a change from its previous adherence to network-wide operating plans and clearance goals. FY 2022 Division Report at 2. The Postal Service notes that in FY 2022, it exceeded its nationwide target for Operating Plan Precision (OPP), which it associates with an increase in service performance.<sup>204</sup> It explains that by improving OPP, “sites were able to meet clearance times and transportation needs more efficiently in FY 2022.” FY 2022 Service Performance Report at 12.

In the materials provided by the Postal Service along with its FY 2022 ACR, it generally describes a number of other initiatives aimed at improving service performance. *See, e.g.*, FY 2022 Service Performance Report at 12-16; FY 2022 Division Report at 2-5.

The Postal Service reports that it generally cannot quantify the impact that any individual initiative has on service performance. Response to CHIR No. 11, question 12.a.; *id.* CHIR No. 7, question 30.a. As in previous years, the Commission finds the Postal Service’s inability to quantify the impact of any of its improvement initiatives problematic. For an improvement initiative to be successful, it must be possible to identify its impact and determine whether or not the initiative had the desired effect on service performance results. The Postal Service generally claims that there is no way to tell how any one individual improvement initiative contributed to overall service performance scores in internal service performance measurement (SPM).<sup>205</sup> Generally, the Postal Service indicates that it uses key performance indicators (KPIs) to monitor the efficacy of its strategies to achieve its service performance targets for Market Dominant products.<sup>206</sup> The Commission, therefore, finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary. The Commission also continues to find that narrative reporting and quantifiable data regarding the Postal Service’s FY 2023 progress are imperative to ensure transparency and accountability of the Postal Service’s improvement initiatives. Consequently, the Commission directs the Postal Service to provide additional information, as described in Sections V.A.4.a.6., b.6., c.6., d.6., and e.6., *infra*.

#### e. Comments and Related Commission Analysis

Comments specific to each class of mail are summarized and responded to in Section V.A.4., *infra*. The comments (and reply comments, if applicable) that pertain more generally to events affecting service performance for all Market Dominant products in FY 2022 are organized by topic, summarized, and responded to below.

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<sup>204</sup> FY 2022 Service Performance Report at 12. OPP is “is the percentage of achieved operating plan based on site-specific designed operating plans” and “is measured as the pass or fail of the major operational groupings that are run within a facility (i.e., cancellations, outgoing primary, outgoing secondary, incoming primary, Delivery Point Sequencing, etc.” FY 2022 Division Report at 2. Each facility has one OPP score, which is the aggregate of the daily scores for each of the facility’s operational groupings. *Id.*

<sup>205</sup> *See, e.g.*, Response to CHIR No. 11, question 12.a.; *see also* CHIR No. 7, question 30.a.

<sup>206</sup> *See* Docket No. ACR2021 Response to CHIR No. 5, question 15.f.i.; *see also* Library Reference USPS-FY22-29 Preface at 8 (identifying the KPIs that are related to improvement in on-time performance for First-Class Mail); FY 2022 Division Report at 2 (explaining that “Operating Plan Precision” is the main KPI “use[d] to measure the effectiveness of its mail processing initiatives relating to operating plans and clearance times.”).

*General.* In its comments, NAPM commends the Postal Service for improving service performance in FY 2022 and encourages the Postal Service to continue to identify areas of improvement. NAPM Comments at 19. The Postal Service, for its part, emphasizes “the enormous improvements achieved” while stating that it “understands that its work is ongoing as it seeks to meet its targets and achieve year-over-year improvement in on-time performance towards the ultimate goal of 95 percent performance across all product categories.” Postal Service Reply Comments at 10.

The Commission commends the Postal Service for achieving significant improvements in service performance scores in FY 2022. The Postal Service must continue to focus on service performance to ensure all categories of products meet their on-time targets in the future. The Commission will closely monitor the Postal Service’s efforts to implement its DFA plan and the consequent impacts that these efforts have on service performance going forward.

*FY 2022 Service Performance Targets and Service Standards.* The Public Representative points out that the Postal Service has amended its service performance targets from FY 2020 through FY 2022. PR Comments at 29. He observes that “[t]he significance to be attached to an on-time service performance target depends upon its purpose and upon the adequacy of the basis for its selection.” *Id.* at 30. He asserts that if the purpose of the targets is to provide an incentive to improve service performance, a higher target is appropriate, while if the purpose is to give customers a reliable expectation of what service is to be expected, a more moderate, realistic target is in order; if the purpose is both, a balance must be struck. *Id.* The Public Representative asserts that in any case, the Postal Service should identify the target’s purpose and supporting basis. *Id.*

The Public Representative contends that a similar balance must be struck in the case of service standards: where service standards are unattainable, they should be lowered, but “beyond a point, achieving their targets by lowering service standards is fruitless” and becomes a “race to the bottom.” *Id.*

PostCom notes that, because of the impacts of the COVID-19 pandemic, year-to-year comparisons of service performance are problematic. PostCom Comments at 9. According to PostCom, the Postal Service has instead “place[d] great emphasis on performance relative to its self-determined targets, while seemingly neglecting to mention that those targets were not set until the third quarter of the fiscal year” and that service standards have been reduced. *Id.*

NPPC commends the work of postal employees, encourages improvements in service, and notes that compared to the service performance in prior years, FY 2022 represented a “significant and welcome improvement.” NPPC Comments at 13. NPPC asserts that, nevertheless, the Commission must keep in mind that the Postal Service is comparing its performance with prior years and its self-announced targets, rather than its service standards, which are the metrics that the Postal Service “advertises as ‘the level of service that the USPS[] strives to provide to customers.’” *Id.* Though acknowledging that the

Commission and the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) have allowed the Postal Service to set targets below 100 percent on-time delivery, NPPC believes that the Postal Service should use that as its service performance benchmark. *Id.* at 13-14.

NAPM commends the Postal Service for providing its FY 2023 service performance targets 60 days prior to the start of the fiscal year and establishing higher targets for certain products than in FY 2022.<sup>207</sup>

The Postal Service disputes any implication that service performance targets (or service standards) were changed in order to inflate its service performance scores. Postal Service Reply Comments at 11. It emphasizes that, as dictated by statute, targets are benchmarks against which service performance can be compared and that the Postal Service sought to establish realistic on-time targets based on operational considerations. *Id.* at 11-12.

The Commission reiterates its expectation that the Postal Service identify targets that are both operationally realistic and promote continuous improvement. The Commission also notes that greater clarity from the Postal Service regarding the purpose and basis behind changed targets would help the Commission evaluate the reasonableness of such targets and would promote public transparency. Similarly, in order to determine change in service performance over time, the Commission encourages the Postal Service to develop a method to analyze the impact that a given change in service standards or measurement has on on-time service performance scores. The Commission also reiterates, in regard to NPPC's comments, that the suggestion that only 100 percent compliance by the Postal Service with its service standards would be sufficient for legal compliance has been considered and rejected by the D.C. Circuit.<sup>208</sup>

*Other subjects.* The Public Representative observes that the Postal Service reported a successful election season in terms of the total ballots delivered and the speed of their delivery. PR Comments at 43. Thus, the Public Representative asserts, "the Postal Service certainly appears capable of achieving a relatively high degree of service performance when it is called for." *Id.* He concludes that it should make the kind of efforts noted above on a daily basis across all areas of the country. *Id.*

NAPM generally encourages the Postal Service to explore the benefits of commingled mail and states that service performance for commingled mail is better than that experienced by other mail. NAPM Comments at 5. NAPM also asserts that "[c]omminglers also provide the Postal Service with extensive mailing data that supports many programs and initiatives and allows the Postal Service to improve workload planning, monitor and improve service performance, gain intelligence into its delivery network and much more." *Id.*

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<sup>207</sup> NAPM Comments at 20. NAPM also requests that the Postal Service's website be updated to reflect these targets. *Id.* In response, the Postal Service notes that targets are periodically posted on both the Postal Service and Commission website. Postal Service Reply Comments at 14-15.

<sup>208</sup> See *Am. Postal Workers Union, AFL-CIO v. Postal Regul. Comm'n*, 842 F.3d 711, 718 (D.C. Cir. 2016).

The Commission appreciates the efforts taken, and results achieved, by the Postal Service during election season. The Commission also encourages the Postal Service to work with NAPM and other stakeholders to determine what, if any, benefits can be achieved by an increased focus on commingled mail. Regarding the Public Representative's suggestion to generalize the extraordinary measures currently applied to ballot mail, the Commission expects that such a proposition could come with significant tradeoffs. The costs and service-performance impacts of the extraordinary measures used for ballot mail are currently unknown.<sup>209</sup> During FY 2023, the Postal Service is evaluating whether to create a dedicated mail product or products for ballot mail, which could entail the development of methodologies to measure the attributable costs and service performance of ballot mail. *See* Response to CHIR No. 15, question 5.b. Pending the development of any such methodologies, it would be premature to offer any view on whether the extraordinary measures used for ballot mail can feasibly be applied more broadly. All the same, the Commission encourages the Postal Service to consider lessons learned from ballot mail when exploring the feasibility of measures for improving service performance for other types of mail.

f. Commission Analysis of Overall FY 2022 Impacts and FY 2023 Outlook

The Commission appreciates the strides made by the Postal Service to achieve significant service performance improvement from FY 2021 to FY 2022. As the Postal Service acknowledges, "FY 2021 was a year that exemplified the negative service performance impacts of the COVID-19 pandemic." FY 2022 ACR at 50. Specifically, three primary challenges—reduced employee availability, contract transportation disruptions, and changes in the mail mix—had significant negative impacts on service performance. Moreover, the combination of the challenges increased the extent and duration of their impact. More information on these difficulties is available in the Commission's FY 2021 ACR. *See* FY 2021 ACR at 108-20.

As discussed above, these challenges abated somewhat in FY 2022. Moreover, the Postal Service undertook a number of initiatives aimed at combating the impacts of the COVID-19 pandemic and improving service performance generally. Further, as described above, the Postal Service revised its service standards for First-Class Mail and certain Periodicals. The Postal Service represents that these three occurrences resulted in increased on-time service performance results in FY 2022. Because the Postal Service remains unable to measure the impact of any given improvement initiative, the Commission cannot specifically attribute the improved on-time results to either the lessening of the impacts of the COVID-19 pandemic or the initiatives instituted by the Postal Service. *The Commission recommends that the Postal Service reevaluate its KPI system and/or develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance. In particular, the Commission encourages the Postal Service to develop a method that would enable it to measure the impact of changes associated with requests for*

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<sup>209</sup> *See* Response to CHIR No. 13, question 15; Response to CHIR No. 15, questions 4.b.-e.

*advisory opinions under 39 U.S.C. § 3661, given that the Postal Service often justifies such changes with expectations about service performance effects made prior to implementation.*

As explained above, the Postal Service states that it is committed, as part of its DFA plan, to eventually achieving 95 percent on-time service performance across all product categories. FY 2022 ACR at 55. To this end, it asserts that it will “continue to implement the operational, technological, and employee training initiatives set forth in the Plan to improve the mail and package delivery process.” *Id.* It notes that it expects these initiatives to lead to increased service performance in FY 2023 and has increased its service performance targets accordingly. *Id.*

As part of the PSRA, Congress directed the Postal Service to develop and maintain a publicly available online “dashboard” that provides weekly service performance data for Market Dominant products. *See* 39 U.S.C. § 3692(c). The PSRA also 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. 39 U.S.C. § 3692(b)(2). In Docket No. RM2022-7, the Commission issued final regulations codifying the reporting requirements for this dashboard. *See* Order No. 6439. *The Commission expects that the Postal Service will fully comply with these requirements going forward, which should increase public transparency of the state of service performance at any given time.*

g. Commission Findings and Directives

Of the 27 Market Dominant products/categories measured, 13 products/categories did not meet their targets in FY 2022, a substantial improvement from FY 2021, when 21 products/categories missed their applicable targets. *See* Figure V-1, *supra*. Moreover, service performance results for all products/categories were higher than in FY 2021. Although the Postal Service continued to suffer some COVID-19-related impacts in FY 2022, much of the disruption caused by the pandemic had resolved before the beginning of the fiscal year, contributing to increased service performance. However, of the categories/products measured, 5 out of 8 domestic First-Class Mail categories,<sup>210</sup> 2 out of 7 USPS Marketing Mail products, both Periodicals products, and 1 out of 3 Package Services products still had lower performance than before the pandemic (*i.e.*, compared with FY 2019).<sup>211</sup> Nevertheless, Postal Service has made reasonable efforts to respond to any lingering effects of the COVID-19 pandemic. The Commission will continue to monitor these efforts through its class- and product-specific directives. The exact requirements of these directives are discussed in Sections V.A.4.a.6., b.6., c.6., d.6., and e.6., *infra*.

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<sup>210</sup> Outbound Single-Piece First-Class Mail International and Inbound Letter Post service performance was measured through the SPM system in FY 2022. No comparable service performance data exists for prior years.

<sup>211</sup> *See* FY 2021 ACD at 141, 171, 185, 191.

### 3. FY 2022 Service Performance Measurement Systems

The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011. Since then, the Postal Service’s measurement systems have evolved. Figure V-9 identifies the systems used by the Postal Service during FY 2022 to measure service performance for Market Dominant products. The Commission uses the following acronyms and abbreviations: IMb for “Intelligent Mail barcode,” PTR for “Product Tracking and Reporting System,” and Internal SPM for “Internal Service Performance Measurement System.”

**Figure V-9**  
**Service Performance Measurement Systems, FY 2022**

Internal Service Performance Measurement (SPM) System	Product Tracking and Reporting (PTR)	System Internal Custom Designed Measurement Systems
Single-Piece First-Class Mail	USPS Marketing Mail Parcels	Ancillary Services (Excluding Return Receipt – Green Card)
Presort First-Class Mail	Bound Printed Matter Parcels	International Ancillary Services
Periodicals	Media Mail/Library Mail	Address List Services
USPS Marketing Mail		Money Order Inquiries
Bound Printed Matter Flats		Post Office Box Service
International First-Class Mail		Stamp Fulfillment Services
		Ancillary Services (Return Receipt – Green Card)

Source: Library Reference USPS-FY22-29, PDF file “FY22-29 Methodologies Report.pdf” (FY 2022 Methodologies Report).

a. Internal Service Performance Measurement System  
(Internal SPM)

Effective in FY 2019 Quarter 1, the Postal Service began to use Internal SPM to generate data to report service performance results of products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.<sup>212</sup> Accordingly, service performance results for these mailpieces are comparable for FY 2019 through FY 2022. Beginning in FY 2021, First-Class Mail Outbound Single-Piece International, Inbound Letter Post, and Return Receipt-Green Card (a component of Ancillary Services) have also been measured by Internal SPM.<sup>213</sup>

Internal SPM divides measurement into the following three independent segments. First Mile, which applies only to Single-Piece First-Class Mail, measures the time between collection and the first processing operation. FY 2022 Methodologies Report at 1; Order No. 4697 at 17-19. Processing Duration measures the time between the first processing operation and the last processing operation.<sup>214</sup> Last Mile measures the time between the last processing operation and final delivery. FY 2022 Methodologies Report at 1; Order No. 4697 at 17-19.

The Commission requires the Postal Service to continue its external auditing program and file quarterly audit reports regarding Internal SPM.<sup>215</sup>

b. Product Tracking and Reporting System (PTR)

The Postal Service measures service performance for parcels using PTR, a system that records all scan events captured from USPS Marketing Mail Parcels, BPM Parcels, and Media Mail/Library Mail with a trackable service feature. FY 2022 Methodologies Report at 8. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels that utilize the Postal Service's tracking service.<sup>216</sup> PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See* Docket No. ACR2016, February 17 Response to CHIR No. 16, question 3.

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<sup>212</sup> *See* Docket No. PI2015-1, Order Approving Use of Internal Measurement Systems, July 5, 2018, at 17-19, 21, 66-67 (Order No. 4697); Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771); FY 2022 Methodologies Report at 1; *see also* Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872). The measurement systems used prior to FY 2019 are discussed in the FY 2019 ACD. FY 2019 ACD at 92-93.

<sup>213</sup> *See* Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020, at 10-11 (Order No. 5576).

<sup>214</sup> FY 2022 Methodologies Report at 1. Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. Order No. 4697 at 19 n.40.

<sup>215</sup> *See* Order No. 4697 at 67. This requirement has been codified by regulation in 39 C.F.R. § 3055.31(i).

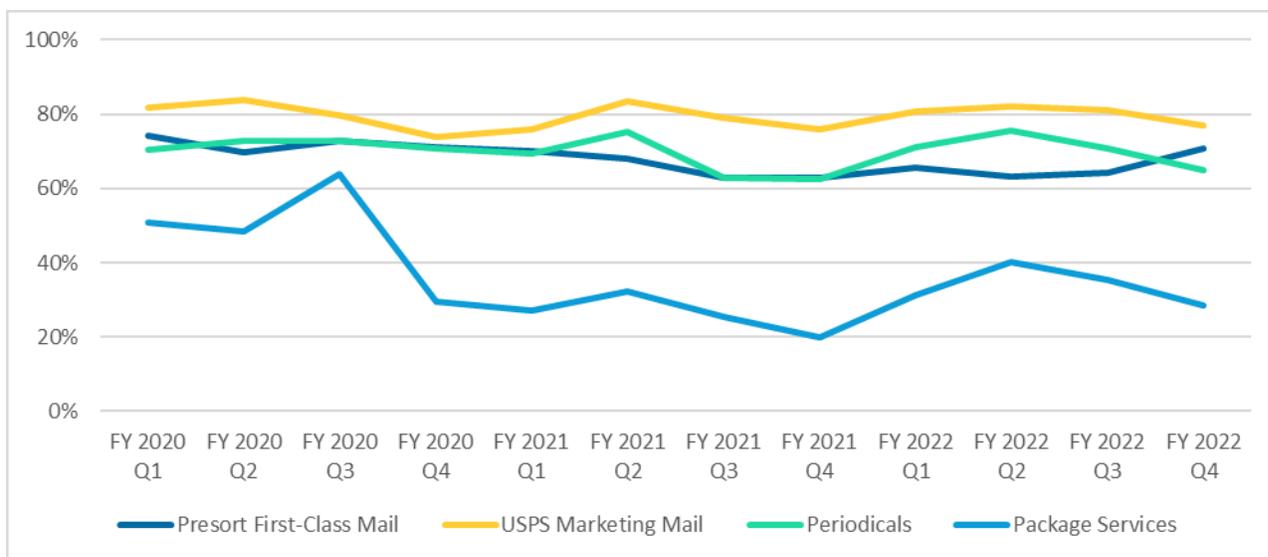
<sup>216</sup> Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 3.

c. Intelligent Mail Barcode (IMb)

In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for USPS Marketing Mail, Periodicals, BPM Flats, and some First-Class Mail products. Full-Service IMb generates Informed Visibility electronic scan data that can be used to track mailpieces as they pass through automated scan operations.<sup>217</sup> Mailers receive a discount for applying an IMb to mailpieces prior to entering them into the mailstream. However, for various reasons, the Postal Service is not able to include all IMb mailpieces in its performance measurement system.

Figure V-10 displays the percentage of total mailpieces entered into the mailstream that are measured by Full-Service IMb for FY 2020 through FY 2022.

**Figure V-10**  
**Nationwide Market Dominant Mail Measured by Full-Service IMb,**  
**by Percentage, by Quarter,**  
**FY 2020–FY 2022**



Note: BPM Flats is the only Package Services product measured using IMb; the remaining Package Services products are measured using PTR. FY 2022 Service Performance Report at 23.

Source: Response to CHIR No. 3, question 10.

<sup>217</sup> See United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, January 24, 2021, § 507.10.1.1 (DMM).

With the exception of Package Services, the percentage of mailpieces measured by IMb has remained relatively consistent since FY 2020. In terms of Package Services, although the Postal Service achieved a higher percentage in FY 2022 relative to the same point in FY 2021 at each quarterly measurement point, the percentage of mailpieces measured by IMb is still relatively low compared with FY 2020. In FY 2022, for Package Services, the percentage of mailpieces measured by IMb peaked in the second quarter at 40 percent, significantly below the FY 2020 peak of 64 percent in Quarter 3. The Commission will continue to monitor trends in Full-Service IMb measurement.

Generally, the more mailpieces that are measured, the more representative, accurate, and reliable service performance measurements will be. The Commission continues to monitor mailpieces excluded from measurement.<sup>218</sup> Among other things, the Postal Service must provide regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons for exclusion.<sup>219</sup>

Table V-1 displays the percentage of mail that received the Full-Service IMb discount and was included in measurement, and the percentage of mail that received the Full-Service IMb discount but was excluded from measurement since FY 2020.

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<sup>218</sup> See, e.g., FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-06; FY 2018 ACD at 133-36; FY 2019 ACD at 98-101; FY 2020 ACD at 155-59, FY 2021 ACD at 131-34.

<sup>219</sup> See Order No. 6439 at 17-21, Attachment at 3-5, 11-13; see also Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016, at 28-35 (Order No. 3490).

**Table V-1**  
**Mail in Measurement and Excluded from Measurement, by Percentage, FY 2020–FY 2022**

Class/Product(s)		Percent of Mail Entered at Full-Service IMb Prices and Included in Measurement			Percent of Mail Processed as Full-Service IMb, but Excluded from Measurement		
		FY 2020	FY 2021	FY 2022	FY 2020	FY 2021	FY 2022
<b>First-Class Mail</b>	Presorted Letters/Postcards	71.95	66.10	65.82	28.05	33.90	34.18
	Flats	66.50	62.20	64.59	33.50	37.80	35.41
<b>USPS Marketing Mail</b>	High Density and Saturation Letters	79.87	79.63	79.95	20.13	20.37	20.05
	High Density and Saturation Flats/Parcels	63.92	53.68	39.75	36.08	46.32	60.25
	Carrier Route Letters	75.41	72.62	76.77	24.59	27.38	23.23
	Flats	81.83	80.47	82.24	18.17	19.53	17.76
	Every Door Direct Mail–Retail	75.45	71.49	76.51	24.55	28.51	23.49
	Parcels	Not Applicable					
	Total USPS Marketing Mail	Data Not Available					
		80.00	78.23	80.14	20.00	21.77	19.86
<b>Periodicals</b>	In-County	Data Not Available		11.87 <sup>a</sup>	Data Not Available		88.13 <sup>a</sup>
	Outside County	Data Not Available		79.46 <sup>a</sup>	Data Not Available		20.54 <sup>a</sup>
	Class	Data Not Available		70.73 <sup>a</sup>	Data Not Available		29.27 <sup>a</sup>
<b>Package Services</b>	Bound Printed Matter Flats	48.05	26.39	33.47	51.95	73.61	66.53

<sup>a</sup> The proportions displayed are estimated by assigning undifferentiated Periodicals mailpieces to In-County Periodicals and Outside County Periodicals in the same proportions as their respective volumes.

Source: Response to CHIR No. 3, question 11, Excel file "ChIR No 3 - Response to Questions 10 and 11.xlsx;" Docket No. ACR2021 Response to CHIR No. 1, question 23; Docket No. ACR2020, Response to CHIR No. 1, question 35; Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 3, January 21, 2020, question 22; Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 16, March 9, 2023, question 1.b. (Response to CHIR No. 16).

In previous fiscal years, the Postal Service did not provide the proportion of mail in measurement and not in measurement for In-County Periodicals and Outside County Periodicals. The Postal Service explained that some mailpieces are missing the information necessary to distinguish between the two Periodicals products.<sup>220</sup> Therefore, while the Postal Service knows that these pieces were excluded from measurement, it does not know how to allocate those pieces between the two products. The Postal Service did provide the

<sup>220</sup> See Docket No. PI2016-1, Responses of the United States Postal Service to Questions 1 Through 5 of Chairman's Information Request No. 1, question 2, May 3, 2016.

proportion of mail in measurement and the proportion of mail not in measurement for the Periodicals class as a whole. Response to CHIR No. 16, question 1.b. In FY 2022, 70.73 percent of Periodicals entered at Full-Service IMb prices were included in measurement. Response to CHIR No. 16, question 1.b. The Postal Service also provided an estimate of the proportion of mail in measurement and the proportion of mail not in measurement for each of the two Periodical products, by assigning the undifferentiated pieces to each product based on their proportions of volume. *Id.* questions 1.c.-d. The resulting estimates of the proportion of mail in measurement for Outside County Periodicals and In-County Periodicals were 79.46 percent and 11.87 percent, respectively. *Id.* The Postal Service cautions that the results may be “over inclusive or under inclusive.” *Id.* With respect to In-County Periodicals, the Commission finds that the estimates could be significantly distorted because, as a relatively low volume product, erroneously assigning Outside County Periodicals mailpieces to In-County Periodicals could have a significant impact on the resulting proportions of mail in and out of measurement. With respect to Outside County Periodicals, the Commission finds that while the estimates are not as reliable as the actual proportions reported for products in other classes, the results for Outside County Periodicals, in conjunction with the results for the Periodicals class, provide a reasonably accurate picture of the extent to which Outside County Periodicals paying Full-Service IMb prices are included in measurement. The proportion of mail in measurement for Outside County Periodicals falls between those of other flat-shaped products, and likely exceeds the proportion of mail in measurement for In-County Periodicals.

*Given that the Commission has been closely monitoring mail included and excluded in measurement for several fiscal years, the Commission expects that the Postal Service shall file the information responsive to CHIR No. 3, question 11 and CHIR No. 16, question 1 in table form, including detailed descriptions for data that are not available or not applicable, for FY 2023 along with the FY 2023 ACR.*

After declining from FY 2020 to FY 2021, the percentage of mail entered at Full-Service IMb and included in measurement increased for nearly all categories measured. The two exceptions were First-Class Mail Presorted Letters and Postcards, with a small decline of 0.28 percentage points, and High Density and Saturation Flats/Parcels, with a decline of 13.93 percentage points.

Figure V-11 displays the top two reasons that a mailpiece was excluded from measurement in FY 2022, and the corresponding percent for each class of mail. Not all reasons applied to all classes of mail, although “No Start-the-Clock” and “No Piece Scan” affected multiple mail classes.

**Figure V-11  
Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2022**

<b>No Piece Scan:</b>  No automation scan observed for the mail piece	<b>Package Services</b>	<b>USPS Marketing Mail</b>	<b>Periodicals</b>
	Q1: 88.82%	Q1: 26.60%	Q1: 47.79%
	Q2: 86.29%	Q2: 24.43%	Q2: 48.49%
	Q3: 87.73%	Q3: 28.28%	Q3: 51.73%
	Q4: 82.84%	Q4: 29.50%	Q4: 53.07%
<b>No Start-the-Clock:</b>  Lack of a container unload scan or inability to identify the Facility Access and Shipment Tracking (FAST) appointment associated to the container	<b>First-Class Mail</b>	<b>USPS Marketing Mail</b>	<b>Periodicals</b>
	Q1: 41.88%	Q1: 43.47%	Q1: 20.77%
	Q2: 35.52%	Q2: 45.03%	Q2: 18.79%
	Q3: 32.47%	Q3: 39.23%	Q3: 16.06%
	Q4: 49.42%	Q4: 43.19%	Q4: 17.18%
<b>Long Haul:</b>  Mail verified at a Detached Mail Unit (DMU), then transported by USPS to a mail processing facility in a different district than the DMU	<b>First-Class Mail</b>	<b>Invalid Entry Point for Discount Claimed:</b>	<b>Package Services</b>
	Q1: 35.31%	Entry Point for Entry Discount claimed in eDoc* is invalid for the entry point and destination of the mail.	Q1: 5.27%
	Q2: 38.53%		Q2: 5.18%
	Q3: 35.39%		Q3: 4.62%
	Q4: 21.17%		Q4: 4.81%

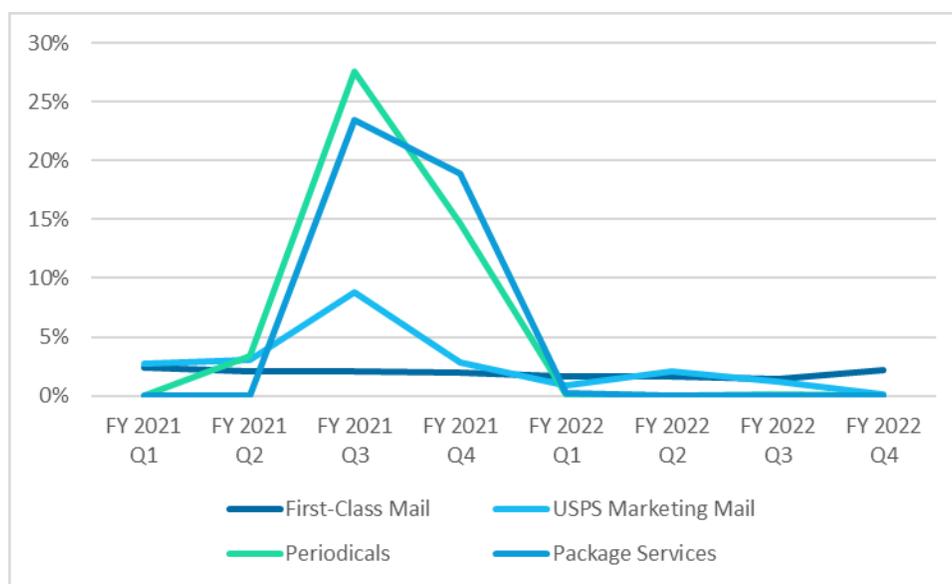
Source: United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 9, 2022, Excel file "AttachA\_ExclusionReasonBreakdown\_FY22\_Q4.xlsx," tab "Exclusions" (FY 2022 Postal Service Q4 Service Performance Report).

The most common reason for mailpiece exclusion for First-Class Mail and USPS Marketing Mail was reported to be "No Start-the-Clock," which occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment associated with the container. The Postal Service excludes these mailpieces from measurement because the Postal Service cannot determine when the measuring process should begin without an initial scan or an identified FAST appointment. See FY 2020 ACD at 159.

For First-Class Mail, “Long Haul” was also a significant cause of exclusion throughout FY 2022. A “Long Haul” exclusion occurs when a mailpiece verified at a Detached Mail Unit (DMU) is transported by the Postal Service to a mail processing facility in a different District than the DMU. *Id.* The Postal Service excludes these mailpieces from measurement because this type of operational failure results in a loss of visibility of the mailpiece. *See* FY 2015 ACD at 101-02.

Consistent with previous years, “No Piece Scan,” which occurs when no automation scan is observed for the mailpiece, was the top reason for exclusion for both Periodicals and Package Services in FY 2022. The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2019 ACD at 101. For Periodicals, “No Start-the-Clock” and for Package Services, “Invalid Entry Point for the Discount Claimed” also contributed to the exclusion of mailpieces from measurement.

**Figure V-12**  
**Non-Compliance as an Exclusion Reason, FY 2021–FY 2022**



Source: FY 2022 Postal Service Q4 Service Performance Report, Excel file “AttachA\_ExclusionReasonBreakdown\_FY22\_Q4.xlsx,” tab “Exclusions;” United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 10, 2021, Excel file “AttachA\_ExclusionReasonBreakdown\_FY21\_Q4.xlsx,” tab “Exclusions” (FY 2021 Postal Service Q4 Service Performance Report).

Figure V-12 shows the trend of “Non-Compliant” as an exclusion reason for FY 2021 and FY 2022. “Non-Compliant” is defined by the Postal Service as “Mail identified as non-compliant due to inaccuracies in mail preparation.” In its FY 2021 ACD, the Commission observed that for the Periodicals and Package Services mail classes, non-compliance became a major contributing factor for exclusion in FY 2021 Quarters 3 and 4. Pieces are considered non-

compliant when they do not meet the requirements for “Full-Service.”<sup>221</sup> The Postal Service asserted that a single mailer contributed approximately 99 percent of the non-compliant volumes between February 2021 and September 2021, and indicated that it was due to a temporary situation. Response to CHIR No. 16, question 2.b. The Postal Service explained that because the mailer used a new Customer Registration Identification (CRID), the volumes associated with that CRID were initially placed on a temporary non-compliant status so that the Postal Service could evaluate compliance with Full-Service requirements. *Id.* questions 2.a.-b. As the Figure V-12 illustrates, “Non-Compliant” was no longer a significant reason for exclusion in FY 2022.

*Comments and Related Commission Analysis.* NAPM states that it appreciates the changes that the Postal Service has implemented regarding mail excluded from measurement but “continue[s] to urge the Postal Service to implement a reporting solution that allows commingle mailers and others to obtain visibility at a level that helps them identify the specific mail being excluded.” NAPM Comments at 20.

NAPM also states that its members have been receiving increasingly frequent correspondence from their local postal plants to discuss perceived issues with these members’ mail entry; specifically, NAPM asserts that the local plant managers appear to misunderstand how the CETs and Customer Supplier Agreements (CSAs) impact their service performance scores. NAPM Comments at 21. NAPM encourages the Postal Service to “educate both local operations and acceptance/Business Mail Entry Unit personnel on how mail is measured for service performance measurement.” *Id.* In response, the Postal Service notes that service performance training is provided to all plant managers and states that it will continue to take appropriate steps to ensure that local employees understand service performance issues. Postal Service Reply Comments at 13-14.

PostCom asserts that a significant volume of Market Dominant mail is excluded from measurement and, because of “business rules that exclude mail pieces that have been in the network for an inordinate amount of time, pieces excluded from measurement would likely exhibit service performance that is inferior to the Postal Service’s published results.” PostCom Comments at 9. The Postal Service explains that this exclusion only applies to approximately 0.01% of volume and “is necessary so that the measurement system is not updating the piece information indefinitely.” Postal Service Reply Comments at 15.

The Commission encourages the Postal Service to reach out to NAPM to better address the cause of any miscommunications with its members and to continue to communicate to its field personnel how to properly follow the SPM Plan.

As explained above, the Commission recognizes that the percentage of mail in measurement continued the largely unpredictable trend of increasing by several percentage points for some products while decreasing several percentage points for others.

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<sup>221</sup> Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-2 of Chairman’s Information Request No. 16, February 18, 2022, question 2.a. (Docket No. ACR2021, Response to CHIR No. 16).

The Commission will continue to monitor trends in measurement and the reasons for exclusions and has recently codified reporting requirements for mail included and excluded from measurement in Docket No. RM2022-7. *See* Order No. 6439 at 17-21, Attachment at 3-5 and 11-13. *The Commission recommends that, as the impacts to the Postal Service caused by the COVID-19 pandemic continue to abate, the Postal Service renew its focus on increasing the percentage of mail in measurement and analyzing and improving its mail in measurement program.*

#### 4. FY 2022 Service Performance Results by Class

##### a. First-Class Mail

##### (1) FY 2021 Directives

Finding that no First-Class Mail products met their FY 2021 service performance targets, the Commission directed the Postal Service to improve service performance. FY 2021 ACD at 164. Noting that the Postal Service had longstanding issues meeting their service performance targets for First-Class Mail and that every category of First-Class Mail missed its service performance target in FY 2021 even after the targets had been revised substantially downwards, the Commission determined that all First-Class Mail products were out of compliance in FY 2021. *Id.* Therefore, the Commission issued a series of directives to monitor the progress and efficacy of the Postal Service's service performance improvement initiatives. *See id.* at 180-85.

First, to evaluate the Postal Service's nationwide initiatives to improve transit and Last Mile performance, the Commission directed the Postal Service to report on its progress and plans for remedying those issues. *See id.* at 165-66.

Second, to evaluate the Postal Service's Division-level initiatives to address the top root causes of failure to deliver First-Class Mail on time, the Commission directed the Postal Service to report on its Division-level progress and plans for remedying those issues. *See id.* at 166-67.

Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directed the Postal Service to provide Area- and District-level data concerning: the top five root cause point impacts for First-Class Mail; air carrier capacity; the number of CLTs; the performance for each national operating plan target; and the 10 facilities with the most failures in meeting each national operating plan target during FY 2021. *See id.* at 167.

Fourth, to monitor the Postal Service's initiatives to improve service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directed the Postal Service to report on its progress at addressing processing deficiencies at International Service Centers (ISCs) and plans for remedying those issues. *See id.* at 167-68.

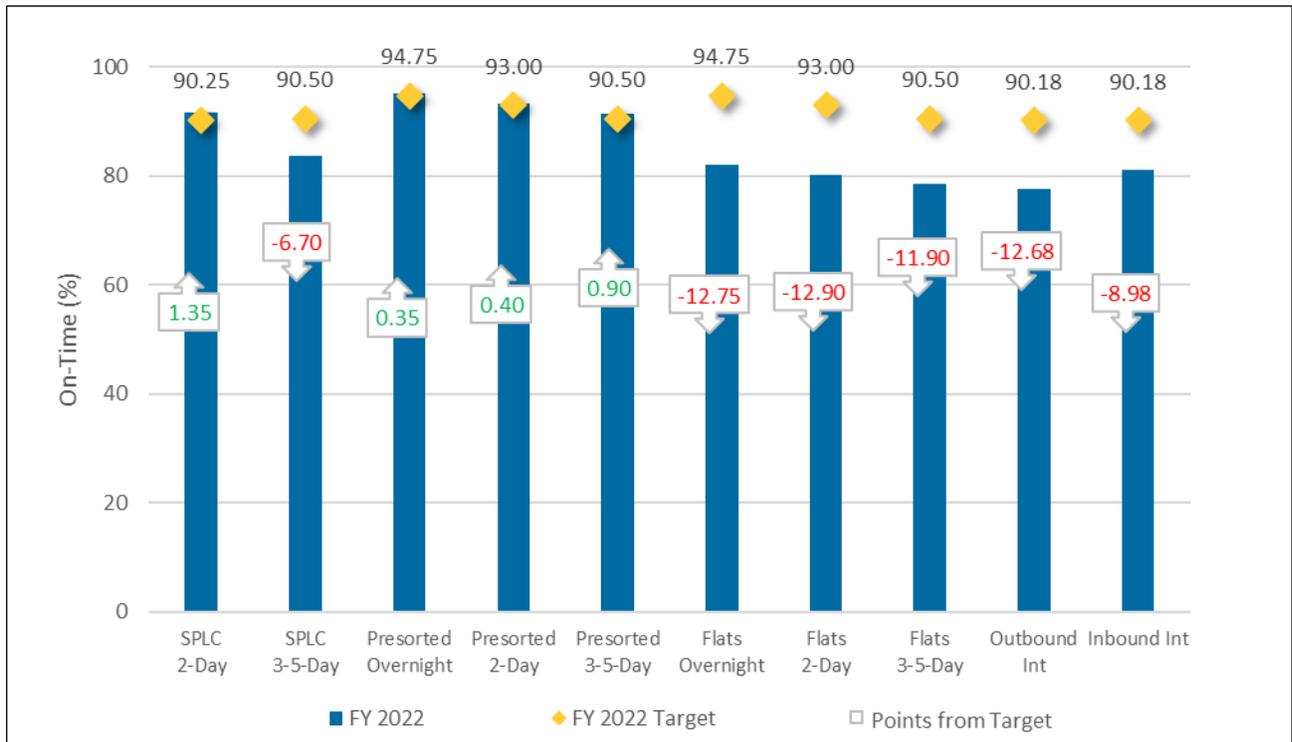
Fifth, to monitor the Postal Service's initiatives to remediate service performance declines from FY 2020 to FY 2021, the Commission directed the Postal Service to provide national

service performance results, disaggregated by month, for each First-Class Mail product (all service standards and combined). *See id.* at 169.

(2) FY 2022 Results

Figure V-13 shows the FY 2022 service performance results compared to the annual targets for all First-Class Mail products.

**Figure V-13**  
**First-Class Mail**  
**Service Performance Results, by Percent, FY 2022**



Notes: The Postal Service reports its targets for its domestic products and service standard categories to two decimal places; whereas results are reported to one decimal place. The difference between the target and the result is rounded to two decimal places.

In the legend, "Points from Target" represents the difference between the Postal Service's stated service performance target and the FY 2021 service performance result. "SPLC 2-Day" and "SPLC 3-5-Day" refer to the 2-Day and 3-5-Day service standards for the Single-Piece Letters/Postcards product, respectively. "Presorted Overnight," "Presorted 2-Day," and "Presorted 3-5-Day" refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Presorted Letters/Postcards product, respectively. "Flats Overnight," "Flats 2-Day," and "Flats 3-5-Day" refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Flats product, respectively. "Outbound Int" refers to the combined result for the Outbound Single-Piece International product. "Inbound Int" refers to the combined result for the Inbound Letter Post product.

Source: FY 2022 Service Performance Report at 3-4.

Table V-2 summarizes service performance results compared to the annual targets for all First-Class Mail products for FY 2020, FY 2021, and FY 2022.

**Table V-2**  
**First-Class Mail**  
**Service Performance Results, by Percent, FY 2020–FY 2022**

Product		FY 2020	Target	FY 2021	Target	FY 2022	Target
Single-Piece Letters/Postcards	2-Day	92.0	96.50	87.4	87.81	91.6	90.25
	3-5-Day	79.7	95.25	64.6	68.64	83.8	90.50
Presorted Letters/Postcards	Overnight	95.0	96.80	93.7	93.99	95.1	94.75
	2-Day	93.0	96.50	88.5	89.20	93.4	93.00
	3-5-Day	90.2	95.25	81.0	84.11	91.4	90.50
Flats	Overnight	80.3	96.80	75.2	93.99	82.0	94.75
	2-Day	77.5	96.50	71.7	89.20	80.1	93.00
	3-5-Day	73.34	95.25	61.1	84.11	78.6	90.50
Outbound Single-Piece International	Combined	71.9	94.00	58.0	82.43	77.5	90.18
Inbound Letter Post	Combined	66.2	94.00	73.8	82.43	81.2	90.18

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

### (3) Postal Service Report

The Postal Service explains that all First-Class Mail products, mail shape categories, and service standards saw improved service performance from FY 2021 to FY 2022. FY 2022 Service Performance Report at 5. Specifically, the Postal Service notes that targets were met in four categories: 2-Day Single-Piece Letters/Postcards, Overnight Presorted Letters/Postcards, 2-Day Presorted Letters/Postcards, and 3-5-Day Presorted Letters/Postcards. *Id.* On the other hand, it observes that “Flat mail continues to trail letter mail in service performance” and identifies the cause as “machine performance, multiple mail flows, and proportion of manual volume compared to letters.” *Id.* The Postal Service asserts that several initiatives, including the discontinuance of FSS processing and the change in CET for Periodicals, discussed in more detail above, will improve Flats service performance. *Id.* at 5-6.

As directed in the FY 2021 ACD, the Postal Service provided a variety of information regarding the identity and causes of on-time service performance failures, its nationwide and Division-level initiatives in FY 2022 to improve service performance and address the top root causes of failure to deliver First-Class Mail on time, and plans for further

improvement in FY 2023.<sup>222</sup> In addition, the Postal Service filed monthly service performance results for each First-Class Mail product during FY 2022.<sup>223</sup>

(4) Comments and Related Commission Analysis

Comments concerning First-Class Mail service performance are organized by topic, summarized, and responded to below.

*Domestic products:* Initially, the Public Representative notes that, as measured by the Postal Service, 2-Day Single-Piece Letters/Postcards and all the Presorted Letter/Postcard categories, exceeded their targets. PR Comments at 32. He also notes that, under the current service standards, most Single-Piece Letters/Postcards and Presorted Letters/Postcards categories met their targets for each quarter in FY 2022. *Id.* at 32-33. On the other hand, disaggregating the Flats product into multiple subcategories, he explains that, of all the First-Class Mail Single-Piece and Presorted Flats categories, only 5-Day, Presorted Flats met their targets in any quarters. *Id.* at 33-34. However, the Public Representative recognizes that the change in service standards for First-Class Mail complicates year-over-year comparisons.

Also, noting that “the service standards for 39 percent of First-Class Mail...were reduced in FY2022 compared to FY2021 due to the changes described in Docket No. N2021-1,” NPPC states that these reduced service standards mask whether service was truly improved in FY 2022. NPPC Comments at 14-15. NPPC asserts that because the Postal Service has not set service performance targets at 95 percent for most First-Class Mail products, “First-Class mailers still have not received the benefit promised in Docket No. N2021-1.” *Id.* at 15. NPPC also urges the Commission to modify service performance reporting requirements to include a report on the service quality accorded to remittance mail. *Id.* at 16.

The Postal Service notes that it did not change the service standards for First-Class Mail in order to improve service performance scores, but rather as “a necessary part of improving service reliability over the long run as they enable better operational precision and improve the Postal Service transportation and processing networks.” Postal Service Reply Comments at 12. It asserts that service performance improvement in FY 2022 demonstrates that these changes have already begun to have their intended effect. *Id.* Moreover, in regards to NPPC’s suggestions relating to remittance mail, the Postal Service notes that the Commission determined (and the Postal Service agreed) that Reply Mail should be reported on the Postal Service’s online dashboard. *Id.* at 16-17; *see also* 39 C.F.R. § 3055.102(h).

The Commission acknowledges that the changes in service standards for some First-Class Mail categories complicates the comparability of year-over-year on-time service

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<sup>222</sup> See, e.g., Library Reference USPS-FY22-29 Preface; FY 2022 Division Report; Library Reference USPS-FY22-29, December 29, 2022, Excel files “FY22 FCM Root Cause.xlsx;” “24 hr clock FY2022.xlsx;” “CLT FY22 11.30.2022.xlsx.”

<sup>223</sup> See, e.g., Docket No. ACR2021, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, May 10, 2022 (Docket No. ACR2021, Second Response to Directives), Excel file “FY 2022 Monthly Data 5-10-2022.xlsx.”

performance results for these mailpieces. In response to information requests on this subject, the Postal Service confirmed that it has not undertaken an investigation to determine the service performance scores for First-Class Mail when calculated using the service standards in place prior to the changes made as a result of Docket No. N2021-1 and cannot do so because “the piece-level data necessary to properly perform [such calculations] do not exist.” Response to CHIR No. 7, questions 30.b.-c.

*Flats.* The Public Representative notes that, while service performance for First-Class Mail generally improved in FY 2022, “flats mail performance continues to trail letter mail in service performance as has been the case historically.” PR Comments at 42. The Public Representative notes that the Postal Service cites several potential reasons for this issue and proposes several initiatives to improve Flats service performance. *Id.*

NPPC agrees that service performance for First-Class Mail Flats remains low and states that this fact is particularly egregious considering the rates were raised twice in the past year. NPPC Comments at 15-16. The Postal Service acknowledges the existing challenges with First-Class Mail Flats, asserts that it has several initiatives designed to improve service performance for these categories, and notes that the Commission is already conducting a study specifically on Flats issues. Postal Service Reply Comments at 16. The Postal Service cautions that comments addressed to Flats specifically are better left to the Commission’s Flats Study. *Id.*

NAPM suggests that the Postal Service and the Commission separate the evaluation of Flats service performance into single-piece and presorted categories. NAPM Comments at 7. In response, the Postal Service notes that it does separately report results for First-Class Mail Presort Flats and First-Class Mail Single-Piece Flats in conjunction with its Quarterly Reports, which are available on the Commission website. Postal Service Reply Comments at 14.

With respect to NAPM’s suggestion to separate the evaluation of Flats service performance into the single-piece and presorted categories, the ACD evaluation is at the product-level and therefore includes both categories. Consistent with previous years, the Commission continues to evaluate sub-categories within products to determine the best practices for remedial action. For Flats, the Commission requests and receives point-impact data disaggregated by the single-piece and presorted categories.

As described above in Section I.E., further analysis on Flats will appear in detail in the Commission’s Flats Study.

## (5) Commission Analysis

### (a) Overview

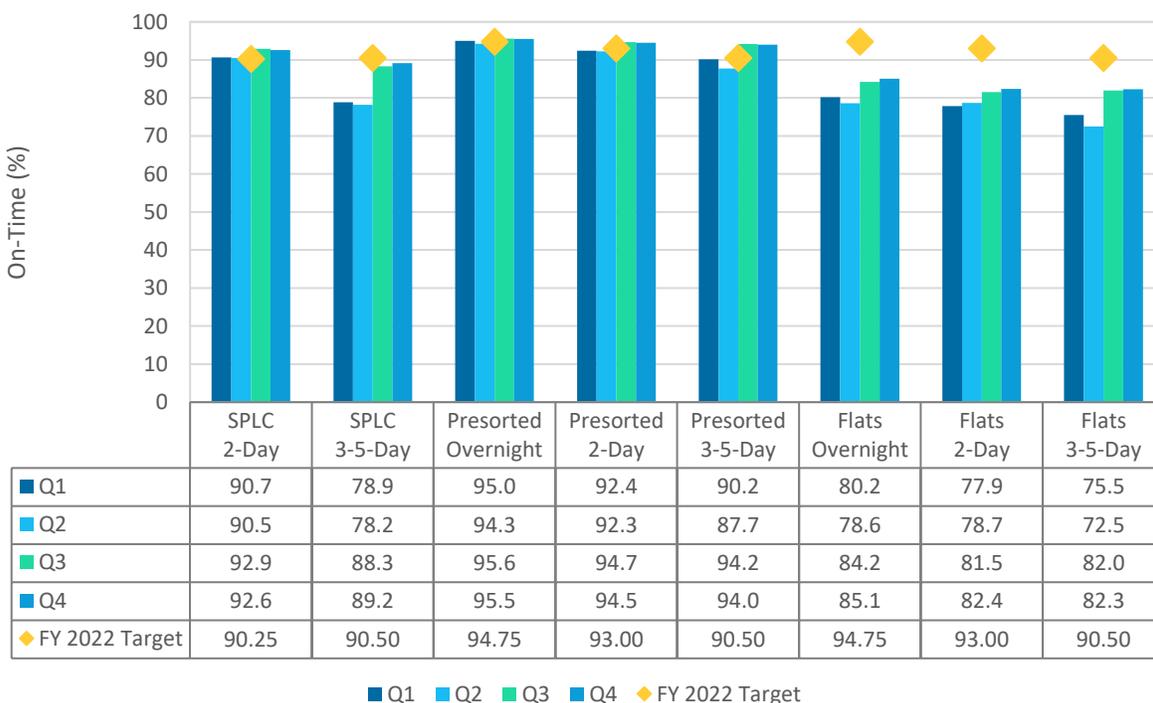
After seven consecutive years in which all First-Class Mail product categories missed their service performance targets, four First-Class Mail product categories exceeded their targets in FY 2022. *See Figure V-13, supra.* The best indicator of improvement (or decline) in service performance is to compare service performance results from one period to the

same period in the prior fiscal year. *See* FY 2019 ACD at 105, 117. While the Commission is cognizant that the change in service standards for First-Class Mail makes year-over-year comparisons more complicated, the FY 2022 results for each domestic product category increased compared to results for the prior fiscal year, including the categories that were unaffected by the service standard changes. Below, the Commission provides further analysis for the three domestic and two international products.

(b) Domestic Products

Figure V-14 displays quarterly results for FY 2022, disaggregated by shape, service standard, and whether the mailpiece was presorted or single-piece, for Domestic First-Class Mail products.

**Figure V-14**  
**Domestic First-Class Mail**  
**Service Performance Results, by Quarter, FY 2022**



Note: Except for Presorted Overnight and Flats Overnight, the Postal Service implemented service standard changes for all categories appearing in this Figure, effective October 1, 2021 (the beginning of FY 2022). 86 Fed. Reg. 43,941, 43,951 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); *see also* Docket No. N2021-1, Advisory Opinion

Source: Library Reference USPS-FY22-29, Excel file "FY22 ACR First-Class Mail.xlsx."

Service performance improved for all domestic product categories in the second half of FY 2022 relative to the first half of the fiscal year. This trend reflects the pattern observed in most previous fiscal years that results in the second half of the fiscal year have tended to outperform the first half of the fiscal year, largely due to seasonal trends. *See, e.g.,* FY 2020

ACD at 165. Nonetheless, all First-Class Mail products (or shape or service standard categories) that failed to meet annual service performance targets in FY 2022 also failed to achieve target-level service performance on a quarterly basis, even in the second half of the year.

In recent years, the Postal Service has reported that it planned to address service performance issues by driving local facilities' adherence to the Postal Service's existing multi-year, national, data-driven strategies. *See* FY 2019 ACD at 106, 118. The Commission has, therefore, obtained data and information at and below the national level to monitor the connection between the Postal Service's national headquarters and the field. *Id.* These data were obtained to increase transparency as to how the Postal Service sets operational targets for the local facilities, provides local facilities with resources and training to meet those targets, measures local facilities' performance in a meaningful and consistent manner, and holds local facilities accountable for gaps between the target and actual performance. *Id.*

The various narrative reports submitted by the Postal Service indicate the issues that have the most impact on delivering First-Class Mail on time.<sup>224</sup> The data show that failures in transit and "Unable to Assign" are the known root causes that had the most impact on service performance results for First-Class Mail in FY 2022.<sup>225</sup>

i. Single-Piece Letters/Postcards

Single-Piece Letters/Postcards is a retail product made available to the general public and includes stamps and postage paid through meters. *See* MCS § 1105. In FY 2015, and every fiscal year since, the Commission determined that this product was out of compliance and issued directives to monitor the Postal Service's remediation initiatives. *See* FY 2019 ACD at 101-02, 119 (summarizing past ACD findings); FY 2020 ACD at 180-85; FY 2021 ACD at 148-52.

In FY 2022, there were two service standard categories for this product: 2-Day and 3-5-Day.<sup>226</sup> The 2-Day service standard applies to Single-Piece Letters/Postcards in the continental United States only if the drive time between the origin processing and distribution center/facility (P&DC/F) and destination ADC is 3 hours or less.<sup>227</sup> This represents a change from FY 2021, when the drive time to qualify for a 2-Day service

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<sup>224</sup> FY 2022 Service Performance Report at 5-7; Library Reference USPS-FY22-29 Preface at 7-11; FY 2022 Division Report.

<sup>225</sup> Library Reference USPS-FY22-29, Excel file "FY22 FCM Q1 Point Impact for Nation.xlsx."

<sup>226</sup> *See* FY 2022 Service Performance Report at 3; 39 C.F.R. § 121.1(b)(2), (c), (d), (e). Effective October 1, 2022 (FY 2023 Quarter 1), the Postal Service implemented new service standards for First-Class Mail, revising the standard for some First-Class Mail to 3-day to 4-, or 5-day standard depending on the distance between origin and destination. *See* Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43941, 43954 (August 11, 2021) (codified at 39 C.F.R. pt. 121); *see also* Docket No. N2021-1, Advisory Opinion at 12-13.

<sup>227</sup> *See* 39 C.F.R. § 121.1(b)(2); *see also* 86 Fed. Reg. 43952, 43954. With respect to the non-continental United States, the 2-Day standard also applies to Single-Piece Letters/Postcards that originate and destinate within Puerto Rico, the U.S. Virgin Islands, American Samoa or specific 3-Digit ZIP Code areas in Alaska. 39 C.F.R. § 121.1(b)(2).

standard was 6 hours,<sup>228</sup> resulting in an estimated 8.2 percent of mail shifting from a 2-Day to a 3-5-Day service standard.<sup>229</sup> Additionally, the Postal Service estimated that 30.3 percent of mailpieces within the contiguous United States formerly subject to the 3-Day service standard in FY 2021 would shift to a 4- or 5-Day service standard in FY 2022. Docket No. N2021-1 Advisory Opinion at 1. From FY 2021 to FY 2022, service performance results for 2-Day Single-Piece Letters/Postcards and 3-5-Day Single-Piece Letters/Postcards increased by 4.2 and 19.2 percentage points, respectively.<sup>230</sup>

Of the two, only 2-Day Single-Piece Letters/Postcards met its FY 2022 target, even though FY 2022 on-time service performance results did not reach its pre-pandemic service performance level. While 3-5-Day Single-Piece Letters/Postcards service performance reached levels not seen since before the COVID-19 pandemic, it did remain below target, and therefore the discussion will focus on service performance results for this category.

Postal Service data illustrate that the top five root causes of failures to meet service standards for 3-5-Day Single-Piece Letters/Postcards remained similar in FY 2021 and FY 2022; however, Last Mile failures replaced Transit Missing Destination Primary Scans failures in the top five root causes.<sup>231</sup> Figure V-15 displays the top five root causes for the failure of 3-5-Day Single-Piece Letters/Postcards to be delivered on time in FY 2022, along with the corresponding point impact and percent change from FY 2021.

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<sup>228</sup> Docket No. N2021-1, Advisory Opinion at 124, n.107. Effective October 1, 2021 (the beginning of FY 2022), the Postal Service revised its service standards. 86 Fed. Reg. 43,941, 43,951 (Aug. 11, 2021) (codified at 39 C.F.R. pt. 121).

<sup>229</sup> During the advisory opinion process, the Postal Service estimated that its proposed changes would increase the service standard for 8.2 percent of mailpieces formerly subject to the 2-Day service standard. Docket No. N2021-1, Advisory Opinion at 1.

<sup>230</sup> Compare FY 2022 Service Performance Report at 3-4, *with* Docket No. ACR2021, Library Reference USPS-FY21-29, December 29, 2021, PDF file "FY21-29 Service Performance Report.pdf," at 4 (FY 2021 Service Performance Report).

<sup>231</sup> Compare Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx" *with* Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx," tab "SPFC."

**Figure V-15  
3-5-Day First-Class Mail Single-Piece Letters/Postcards  
FY 2022 National Top 5 Root Causes and Point Impact**

ROOT CAUSE				
				
<b>Transit Late Destination Primary Scan</b>	<b>Unable to Assign</b>	<b>First Mile</b>	<b>Last Mile</b>	<b>Origin Missent</b>
POINT IMPACT				
<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>
5.22	2.25	1.91	1.85	1.85
<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>
14.61	5.76	1.80	NA	4.26
CHANGE %				
-64.28%	-61.02%	6.28%	NA	-64.32%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-36 of Chairman’s Information Request No. 2, January 25, 2022, question 23.a. (Docket No. ACR2021, Response to CHIR No. 2).

Source: Library Reference USPS-FY22-29, Excel file “FY22 FCM Root Cause.xlsx;” Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file “FY21 FCM Q1 Point Impact for Nation.xlsx.”

Although Transit Late Destination Primary Scan remains the top root cause for 3-5-Day Single-Piece Letters/Postcards in FY 2022, it decreased 64.28 percent in point impact, from 14.61 in FY 2021 to 5.22 in FY 2022. This indicator is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary Scan at the expected destination facility is late.<sup>232</sup> The second highest root cause category, Unable to Assign, decreased 61.02 percent in point impact from 5.76 in FY 2021 to 2.25 in FY 2022. This indicator is applied to mailpieces for which there is insufficient information to determine the root cause. FY 2022 Division Report at 5. Among root causes, only First Mile failures increased compared with FY 2021. First Mile failures increased 6.28 percent in point impact from 1.80 in FY 2021 to 1.91 in FY 2022.

<sup>232</sup> Docket No. ACR2021, Response to CHIR No. 2, question 23.b., Excel file “CHIR.2.Q.23.RootCause.DefintnHier.xlsx.”

## ii. Presorted Letters/Postcards

Presorted Letters/Postcards is a commercial product made available to mailers that adhere to volume, sortation, and/or drop-shipment requirements. *See* MCS § 1110. There are three service standard categories for this product: overnight, 2-Day, and 3-5-Day. *See* FY 2022 Service Performance Report at 3; 39 C.F.R. § 121.1(a)(2), (b)(2), (c), (d), (e).

Each of the service standard categories for Presorted Letters/Postcards met its service performance targets and achieved their highest results since FY 2019. Results increased from FY 2022 by 1.44, 4.88, and 10.36 percentage points for the overnight, 2-Day, and 3-5-Day categories, respectively.

The Postal Service's data illustrate that the rankings for the top five root causes of failures to meet service standards for each service standard category of Presorted Letters/Postcards changed slightly from FY 2021 to FY 2022. Figure V-16 displays the top five root causes for Presorted Letters/Postcards in FY 2022 nationwide, along with corresponding data for FY 2021.

**Figure V-16**  
**First-Class Mail Presorted Letters/Postcards**  
**FY 2022 National Top 5 Root Causes and Point Impact**

		1-DAY SERVICE STANDARD				
ROOT CAUSE		 Last Mile	 Transit Late Secondary Scan	 Transit Missing Outgoing Scan	 Unable to Assign	 DPS Delay - Non-Standard Flow
POINT IMPACT	FY 2022	2.43	0.90	0.65	0.23	0.18
	FY 2021	2.27	2.01	1.13	0.40	NA
CHANGE %		7.04%	-55.04%	-42.38%	-42.61%	NA
		2-DAY SERVICE STANDARD				
ROOT CAUSE		 Last Mile	 Transit Late Secondary Scan	 Transit Missing Outgoing Scan	 Unable to Assign	 DPS Delay - Non-Standard Flow
POINT IMPACT	FY 2022	2.57	1.72	1.27	0.43	0.17
	FY 2021	2.40	4.57	2.77	1.29	NA
CHANGE %		7.00%	-62.28%	-54.19%	-66.69%	NA
		3-5-DAY SERVICE STANDARD				
ROOT CAUSE		 Transit Missing Outgoing Scan	 Transit Late Secondary Scan	 Last Mile	 Unable to Assign	 DPS Delay - Non-Standard Flow
POINT IMPACT	FY 2022	2.63	2.57	1.70	0.77	0.18
	FY 2021	6.04	7.28	1.97	2.61	NA
CHANGE %		-56.52%	-64.71%	-13.77%	-70.68%	NA

Source: Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx."

Figure V-16 illustrates that Presorted Letters/Postcards experienced similar trends to the point impact results for Single-Piece Letters/Postcards from FY 2021 to FY 2022. All FY 2022 point impacts decreased from the levels observed in FY 2021 for Presorted Letters/Postcards, with two exceptions. The point impact related to Last Mile increased by 7.0 percent for both the Overnight and the 2-Day service standards from FY 2021 to FY 2022. Table V-3 compares the point impacts reported for this indicator disaggregated by fiscal quarter for FY 2021 and FY 2022.

**Table V-3**  
**Presorted Letters/Postcards**  
**FY 2022 Point Impact for Last Mile**

Quarter	Service Standard	Point Impact for Last Mile		
		FY 2021	FY 2022	% Change
Q1	1-Day	2.36	2.21	-6.36%
	2-Day	2.33	2.34	0.43%
	3-5-Day	1.91	1.53	-19.90%
Q2	1-Day	2.39	2.67	11.72%
	2-Day	2.67	2.93	9.74%
	3-5-Day	2.11	1.88	-10.90%
Q3	1-Day	2.03	2.27	11.82%
	2-Day	2.22	2.37	6.76%
	3-5-Day	1.86	1.56	-16.13%
Q4	1-Day	2.28	2.56	12.28%
	2-Day	2.36	2.64	11.86%
	3-5-Day	1.97	1.8	-8.63%

Source: Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx."

For the 1-Day standard, the point impact of Last Mile decreased by 6.36 percent compared with Quarter 1 of FY 2021. For the remaining three quarters, the point impacts were approximately 12 percent higher than in FY 2021. For the 2-Day service standard, point impacts of Last Mile were higher for every quarter of FY 2022 than for the corresponding quarter in FY 2021. The point impact in the first quarter of FY 2022 was only marginally higher than in FY 2021. For Quarters 2, 3, and 4, the increase from the corresponding quarter in FY 2021 was more significant, 9.74 percent, 6.76 percent, and 11.86 percent, respectively.

## iii. Flats

The Commission has previously observed the significant challenges the Postal Service has experienced in processing and delivering flat-shaped mailpieces across all Market Dominant classes. *See, e.g.*, FY 2015 ACD at 160-82. Since FY 2015, the Commission has separately evaluated the long-standing cost and service issues for flat-shaped mailpieces.<sup>233</sup> In FY 2019, the Commission finalized rules for the Postal Service to provide additional information to improve transparency into cost and service performance issues with respect to flats, as well as increase the accountability of the Postal Service with respect to operational initiatives directed at flats.<sup>234</sup> The Commission noted that these challenges have persisted despite numerous operational initiatives to improve cost and service for flat-shaped mailpieces. *See* FY 2019 ACD at 155.

The Flats product includes both retail (single-piece) and commercial (presorted) mailpieces that are flat-shaped. *See* FY 2022 Service Performance Report at 2; *see also* MCS § 1115.

The Postal Service's data illustrate that point impact results decreased for most root causes associated with both retail and commercial categories of Flats. Figures V-17 and V-18 display point impacts for the top five root causes of failures to meet service standards for Flats in FY 2022, along with corresponding data for FY 2021, disaggregated for single-piece and presorted mailpieces, respectively.

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<sup>233</sup> *See* FY 2015 ACD at 160-82; FY 2016 ACD at 158-70; FY 2017 ACD at 174-82; FY 2018 ACD at 213-23; FY 2019 ACD at 155-75; FY 2020 ACD at 236-62; FY 2021 ACD at 228-77.

<sup>234</sup> *See* Docket No. RM2018-1, Order Adopting Final Rules on Reporting Requirements Related to Flats, May 8, 2019 (Order No. 5086).

**Figure V-17**  
**First-Class Mail Single-Piece Flats**  
**FY 2022 National Top 5 Root Causes and Point Impact**

2-DAY SERVICE STANDARD					
ROOT CAUSE					
	Last Mile	First Mile	Unable to Assign	Transit Missing Destination Primary Scan	Transit Late Destination Primary Scan
FY 2022 POINT IMPACT	7.94	4.47	1.53	1.46	1.39
FY 2021	8.80	6.55	2.42	NA	2.97
<b>CHANGE %</b>	-9.77%	-31.76%	-36.78%	NA	-53.20%
3-5-DAY SERVICE STANDARD					
ROOT CAUSE					
	First Mile	Last Mile	Origin Missent	Transit Late Destination Primary Scan	Unable to Assign
FY 2022 POINT IMPACT	2.57	1.72	1.27	0.43	0.17
FY 2021	2.40	4.57	2.77	1.29	NA
<b>CHANGE %</b>	7.00%	-62.28%	-54.19%	-66.69%	NA

Source: Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx."

**Figure V-18**  
**First-Class Mail Presorted Flats**  
**FY 2022 National Top 5 Root Causes and Point Impact**

1-DAY SERVICE STANDARD					
ROOT CAUSE	 Last Mile	 Transit Missing Outgoing Scan	 Transit Late Secondary Scan	 Unable to Assign	 Transit Late Destination Primary Scan
POINT IMPACT FY 2022	6.69	3.35	2.23	2.02	1.37
POINT IMPACT FY 2021	7.18	6.08	4.33	2.69	2.30
CHANGE %	-8.22%	-44.90%	-48.50%	-24.91%	-40.43%
2-DAY SERVICE STANDARD					
ROOT CAUSE	 Last Mile	 Transit Missing Outgoing Scan	 Unable to Assign	 Transit Late Secondary Scan	 AADC Processing Delay- Non Standard Flow
POINT IMPACT FY 2022	6.63	4.19	2.98	2.83	0.42
POINT IMPACT FY 2021	7.03	9.47	5.38	5.06	NA
CHANGE %	-5.69%	-55.76%	-44.61%	-44.07%	NA
3-5-DAY SERVICE STANDARD					
ROOT CAUSE	 Transit Missing Outgoing Scan	 Last Mile	 Unable to Assign	 Transit Late Secondary Scan	 Transit Missing Destination Primary Scan
POINT IMPACT FY 2022	5.33	4.72	2.91	2.76	0.81
POINT IMPACT FY 2021	10.91	5.94	7.06	6.01	3.56
CHANGE %	-51.15%	-20.54%	-58.78%	-54.08%	-77.25%

Source: Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx."

As Figures V-17 and V-18 show, with few exceptions, the root causes that the Postal Service identified in the top five for categories of Flats in FY 2022 were the same ones as those it identified in FY 2021. As with First-Class Mail letter-shaped products, generally, the point impacts of the top root causes decreased from FY 2021 to FY 2022.

Last Mile failures remain the top root cause for Single-Piece 2-Day Flats. However, Last Mile failures decreased in point impact from 8.80 in FY 2021 to 7.94 in FY 2022, which amounts to a decrease of 9.77 percent. The second highest root cause failure was First Mile, the point impact of which decreased from 6.55 in FY 2021 to 4.47 in FY 2022, an annual decrease of 31.76 percent. For Single-Piece 3-5-Day Flats, the top root cause was First Mile, the point impact of which increased from 2.40 in FY 2021 to 2.57 in FY 2022, an increase of 7.00 percent.

The top root causes in FY 2022 for presorted Flats were Last Mile failures and Transit Missing Outgoing Scan. For both the Overnight and 2-Day service standard, the top root cause was Last Mile failures. In FY 2022, presorted Overnight Flats had a point impact of 6.69, compared to 7.18 in FY 2021, which represents a decrease of 8.22 percent. For the 2-Day standard, the point impact in FY 2022 was 6.63, compared to a point impact of 7.03 in FY 2021, a decrease of 5.69 percent. For the 3-5-Day service standard, the top root cause was Transit Missing Outgoing Scan. However, the point impact decreased by 51.15 percent from FY 2021.

### (c) International Products

Outbound Single-Piece International is a retail product made available to the general public to send postcard-, letter-, and flat-shaped mailpieces to addressees outside of the United States. *See* MCS § 1125. Inbound Letter Post includes postcards, aerograms, and letter-shaped mailpieces, which originate outside of the United States, contain only documents, and are intended for delivery inside of the United States.<sup>235</sup>

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<sup>235</sup> *See* MCS § 1130. This definition took effect January 1, 2020, which occurred at the beginning of FY 2020 Quarter 3. *See* Docket Nos. MC2019-17 and CP2019-155, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, December 19, 2019, at 2, 18 (Order No. 5372).

Annual results for Inbound Letter Post and Outbound Single-Piece International have remained below their applicable service performance targets since FY 2009.<sup>236</sup> However, the on-time service performance score for Inbound Letter Post increased by 7.4 percentage points from FY 2021 to FY 2022. Outbound Single-Piece International experienced an even larger improvement in service performance in FY 2022, with an increase of 19.5 percentage points. In FY 2022, the on-time service performance scores for Outbound Single-Piece International and for Inbound Letter Post were 81.2 percent and 77.5 percent, respectively, higher even than scores from pre-pandemic FY 2019.

(6) Commission Findings and Directives

*The following First-Class Mail products/categories did not achieve their service performance targets in FY 2022: 3-5-Day Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Single-Piece Outbound International. Considering this, the Commission finds Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Single-Piece Outbound International were each out of compliance in FY 2022. Specifically for Single-Piece Letters/Postcards, the Commission notes that the 2-Day service standard category did exceed its target whereas the 3-5-Day service standard category did not achieve its target in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these First-Class Mail products in FY 2023.*

*The Commission directs the Postal Service to provide information on the following five matters. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service should file a motion for clarification in Docket No. ACR2022, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2023 versus FY 2022 and shall propose a method for comparing the data.*

(a) FY 2022 Nationwide Transit and Last Mile Improvement Initiatives

*First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2023 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.*

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<sup>236</sup> Prior to FY 2009, the Postal Service provided an aggregate on-time percent result for both products without a target. See Docket No. ACR2008, *Annual Compliance Determination*, March 30, 2009, at 42 (FY 2008 ACD) (displaying an on-time percent result, aggregated for both products, for FY 2007 and FY 2008). For FY 2009 and FY 2010, the Postal Service set a target for the aggregate annual result of both products across all service standard categories. See Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 61 (FY 2010 ACD) (comparing an aggregate result for both products to the 94.0 percent target); Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 52 (FY 2009 ACD) (same for FY 2009). From FY 2011 to FY 2020, the Postal Service set separate (but equal to 94.0 percent on-time) targets for Inbound Letter Post across all service standards as well as for Outbound Single-Piece International across all service standards. See, e.g., Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 71 (FY 2011 ACD) (comparing FY 2011 Combined Inbound Letter Post result to the 94.0 percent target and FY 2011 Combined Outbound Single-Piece International result to the 94.0 percent target); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013, at 54 (FY 2012 ACD) (same for FY 2012); FY 2018 ACD at 164 (same for FY 2013-FY 2018); FY 2019 ACD at 116 (same for FY 2019); FY 2020 Service Performance Report at 4 (same for FY 2020). In FY 2021, the Postal Service lowered targets for both international products to 82.43 percent on-time. FY 2021 Service Performance Report at 4.

1. *The transit evaluation shall explain how the progress made in FY 2023 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2023. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*
2. *The Last Mile evaluation shall explain how the progress made in FY 2023 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2023. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023. Because the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,<sup>237</sup> the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated evaluation and plan shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

(b) FY 2022 Division Improvement Initiatives

*Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.*

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<sup>237</sup> See, e.g., Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, January 11, 2019, question 22.

1. *For each Division, the Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2023. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023.*
2. *For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*Because the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level.<sup>238</sup> However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report from each Division shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

(c) Consistent Data

*Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the following data, described in items 1 and 2. Data shall be provided for FY 2023 Quarter 1, Quarter 2, and "mid-year"<sup>239</sup> within 90 days of the issuance of this ACD (by June 27, 2023). Data shall be provided for FY 2023 Quarter 3, Quarter 4, "second-half"<sup>240</sup> and annualized for the fiscal year, in the FY 2023 ACR (by December 29, 2023). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.*

1. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.<sup>241</sup>*

<sup>238</sup> See generally FY 2022 Division Report; FY 2022 Division Report - Attachment A.

<sup>239</sup> Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2023.

<sup>240</sup> Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2023. Annualized refers to the aggregation of the data for all four quarters of FY 2023.

<sup>241</sup> See, e.g., Library Reference USPS-FY22-NP30, December 29, 2022, Excel file "NONPUBLIC Air Capacity FY2022.xlsx."

2. *The number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.<sup>242</sup>*

(d) FY 2023 ISC Improvement Initiatives

*To monitor the Postal Service's initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.*

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2023.*
2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2022. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report from each facility shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

b. USPS Marketing Mail

(1) FY 2021 Directives

Finding that five USPS Marketing Mail products did not meet their FY 2021 service performance targets (High Density and Saturation Flats/Parcels, Parcels, Carrier Route, Flats, and Every Door Direct Mail—Retail (EDDM-R)), the Commission found that each

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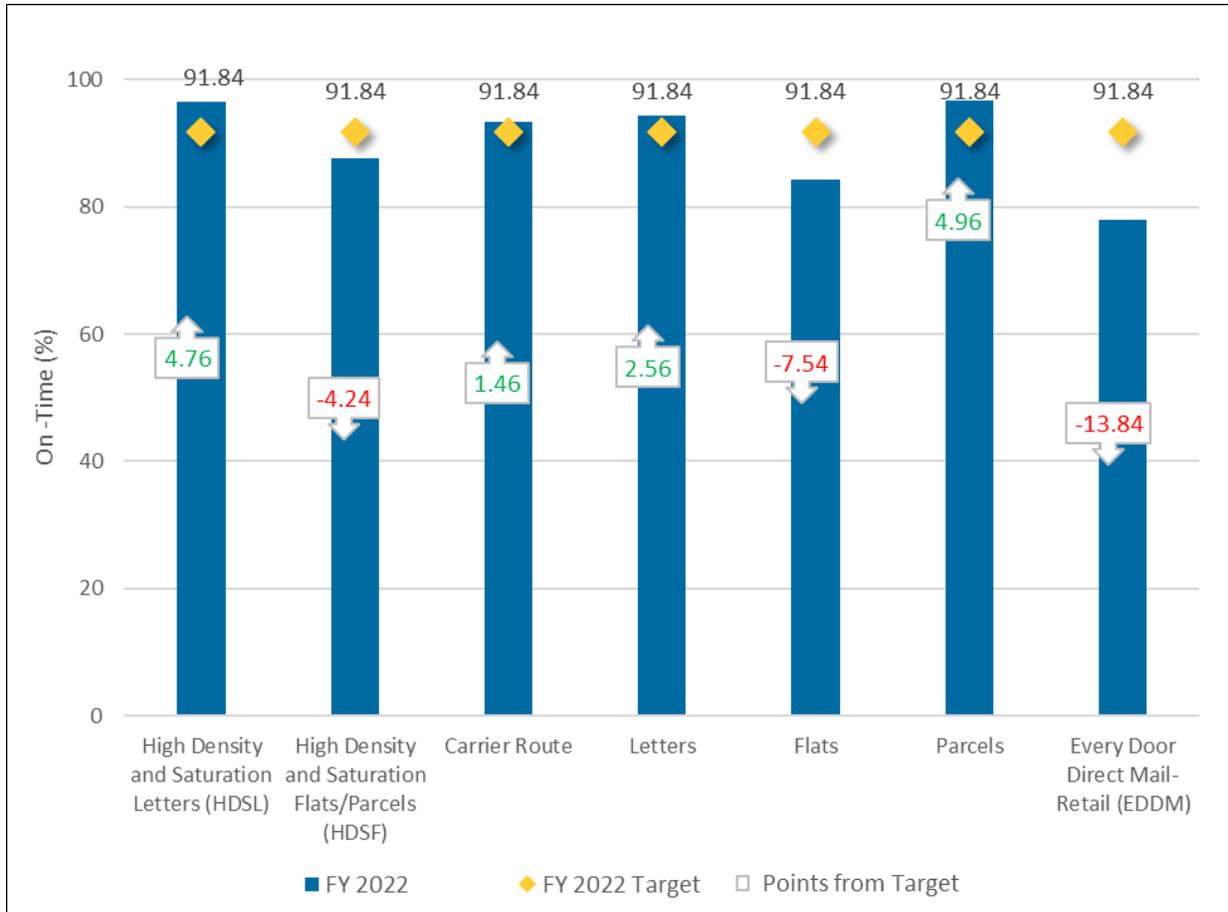
<sup>242</sup> See, e.g., Library Reference USPS-FY22-29, Excel file "CLT FY22 11.30.2022.xlsx."

product was out of compliance. FY 2021 ACD at 179. The Commission directed the Postal Service to provide the Commission the top five root cause point impacts for below-target USPS Marketing Mail products for each quarter and annually in FY 2022. *Id.* Additionally, it required the Postal Service to evaluate the efficacy of its FY 2022 initiatives to improve service performance and provide a detailed plan to improve performance. *See id.* at 179-80. The Commission also directed the Postal Service to file national service performance results, disaggregated by month, for under-target USPS Marketing Mail products in FY 2022. *Id.* at 180. Finally, the Commission required the Postal Service to provide a report on its initiative to resolve a source system error with respect to Parcels. *Id.*

(2) FY 2022 Results

Figure V-19 shows the service performance results compared to the FY 2022 targets for USPS Marketing Mail products for FY 2022.

**Figure V-19  
USPS Marketing Mail  
Service Performance Results, by Percent, FY 2022**



Note: The Postal Service reports its targets to two decimal places; whereas results are reported to one decimal place. The difference between the target and the result is rounded to two places past the decimal point on this figure.

Source: FY 2022 Service Performance Report at 9.

Table V-4 summarizes service performance results compared to the annual targets for Marketing Mail products for FY 2020, FY 2021, and FY 2022.

**Table V-4**  
**USPS Marketing Mail**  
**Service Performance Results, by Percent, FY 2020–FY 2022**

Product	FY 2020	Target	FY 2021	Target	FY 2022	Target
High Density and Saturation Letters (HDSL)	93.2	91.8	92.7	86.62	96.6	91.84
High Density and Saturation Flats/Parcels (HDSF)	87.5	91.8	85.3	86.62	87.6	91.84
Carrier Route Letters	87.8	91.8	85.1	86.62	93.3	91.84
Flats	89.8	91.8	89.5	86.62	94.4	91.84
Parcels	75.7	91.8	72.5	86.62	84.3	91.84
Every Door Direct Mail-Retail (EDDM)	96.7	91.8	52.7	86.62	96.8	91.84
	77.0	91.8	75.7	86.62	78.0	91.84

Notes: Red text indicates service performance was below target. Green text indicates service performance was above target.

The Postal Service explains that a source system error in its measurement of service performance for USPS Marketing Mail Parcels resulted in the drastic decrease in that product's score from FY 2020 to FY 2021. See, e.g., Library Reference USPS-FY22-29 Preface at 6. As directed by the Commission, the Postal Service reports that it resolved this issue prior to Quarter 3 of FY 2022. *Id.*

### (3) Postal Service Report

The Postal Service notes that the service performance scores for all USPS Marketing Mail products increased from FY 2021 to FY 2022. FY 2022 Service Performance Report at 11. It also explains that four USPS Marketing Mail products achieved their targets (High Density and Saturation Letters, Carrier Route, Letters, and Parcels) and three did not achieve their targets (High Density and Saturation Flats/Parcels, Flats, and EDDM-R). *Id.*

As directed in the FY 2021 ACD, for USPS Marketing Mail products that failed to achieve their on-time service performance targets in FY 2022, the Postal Service provided explanations of its progress at improving service performance in FY 2022 and plans for further remedying issues with respect to those products' service performance in FY 2023. See FY 2021 Service Performance Report at 12-16. These initiatives are described in greater detail in Section A.2.d., above. The Postal Service also provided periodic data throughout FY 2022 with respect to those products.<sup>243</sup>

### (4) Comments and Related Commission Analysis

The Public Representative observes that, after decreasing in FY 2021, the service performance targets for USPS Marketing Mail products in FY 2022 returned to their FY 2020 levels. PR Comments at 34. He notes that in FY 2022, all Marketing Mail products

<sup>243</sup> See, e.g., Docket No. ACR2021, Second Response to Directives, Excel file "FY 2022 Monthly Data 5-10-22.xlsx;" see also Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx."

except High Density and Saturation Flats/Parcels, Flats, EDDM-R and Mixed Products Letters met or exceeded their targets. *Id.* Moreover, more products in FY 2022 than in FY 2021 met their targets per quarter. *Id.* at 35-36. Similarly, service performance for Flats products, “while still not meeting their performance targets, improved from an FY 2021 annual on-time percent of 72.5 to an on-time percent of 84.3 in FY 2022.” *Id.* at 36.

The Commission acknowledges these observations and has taken them into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to improve service performance for its USPS Marketing Mail products, which are detailed below in Section V.A.4.b.6., *infra*.

#### (5) Commission Analysis

USPS Marketing Mail is designed for bulk mailings of items that are not required to be mailed as First-Class Mail or authorized for mailing as Periodicals. *See* MCS § 1200.1; *see also* DMM §§ 243.1.1, 243.2.1. FY 2022 service performance results for four USPS Marketing Mail products (Letters, Carrier Route, Parcels, and High Density and Saturation Letters) exceeded the applicable targets set by the Postal Service. High Density and Saturation Letters and Parcels scored about five percentage points above the applicable FY 2022 target. Two other products (Letters and Carrier Route) exceeded their FY 2022 targets by more modest amounts (2.56 and 1.46 percentage points, respectively). Conversely, three USPS Marketing Mail products failed to meet their targets in FY 2022: High Density and Saturation Flats, Flats, and EDDM-R. These products include flat-shaped mailpieces, which have faced challenges for several years and will be analyzed in the Commission’s Flats Study. FY 2022 Service Performance Report at 9.

Table V-5 presents the quarterly service performance results for USPS Marketing Mail products for FY 2021 and FY 2022.

**Table V-5**  
**USPS Marketing Mail**  
**Service Performance Results, by Quarter, by Percent, FY 2021–FY 2022**

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2021	FY 2022						
High Density and Saturation Letters (HDSL)	88.2	95.9	91.6	95.8	95.6	97.4	96.2	97.3
High Density and Saturation Flats/Parcels (HDSF)	84.1	87.8	83.4	86.0	86	88.4	88.4	87.9
Carrier Route Letters	81.9	91.3	82.0	93.0	89.6	95.1	92.4	95.1
Flats	85.9	93.1	86.9	93.0	92.2	95.8	94.2	95.8
Parcels	69.1	81.4	66.9	81.7	76.9	86.5	82.7	88.1
Every Door Direct Mail-Retail (EDDM)	51.7	90.4	48.3	91.7	54.1	79.7	58.5	98.8
	73.6	75.4	75.3	78.5	76.4	76.4	77.3	79.8

Note: **Red** text indicates service performance in the quarter FY 2022 was below service performance of the corresponding quarter in FY 2021. **Green** text indicates service performance in the quarter in FY 2022 was above service performance of the corresponding quarter in FY 2021.

Source: Library Reference USPS-FY22-29, Excel file "FY22 ACR Marketing Mail.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 ACR Marketing Mail.xlsx."

Three of the seven USPS Marketing Mail products (High Density and Saturation Flats, Flats, and EDDM-R) did not achieve their service performance targets in FY 2022. However, every product exceeded its service performance score in FY 2021.

The Postal Service submitted point impact data representing the amount (number of percentage points) by which on-time results for this class decreased due to each specific root cause of failure.<sup>244</sup> The Commission uses these data to promote transparency and accountability for USPS Marketing Mail service performance and to evaluate the relative significance of the Postal Service's improvement initiatives. The point impact data provided by the Postal Service for USPS Marketing Mail are differentiated by shape (letter-shaped and flat-shaped mailpieces) and origin- versus destination-entry, rather than product. Library Reference USPS-FY22-29 Preface at 3.

The Commission focuses its analysis on those letter-shaped and flat-shaped USPS Marketing Mail products that were entered at the origin due to the increased likelihood of more processing and greater transit duration compared to destination-entered mailpieces.

<sup>244</sup> Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx."

Figures V-20 and V-21 show the FY 2022 top root causes and corresponding point impacts for letter- and flat-shaped USPS Marketing Mail entered at origin.

**Figure V-20  
USPS Marketing Mail Origin-Entered Letter/Cards  
FY 2022 National Top 5 Root Causes and Point Impact**

3-5-DAY SERVICE STANDARD						
ROOT CAUSE		 Transit Late Secondary Scan	 Transit Missing Outgoing Scan	 Last Mile	 Unable to Assign	 First Mile
POINT IMPACT	FY 2022	2.64	2.45	1.03	0.81	0.37
	FY 2021	5.13	4.13	1.00	1.18	0.84
CHANGE %		-48.54%	-40.68%	3.00%	-48.31%	-55.95%
6-10-DAY SERVICE STANDARD						
ROOT CAUSE		 Transit Missing Outgoing Scan	 Transit Late Secondary Scan	 Unable to Assign	 Last Mile	 Start-the-Clock to Outgoing Processing Delay
POINT IMPACT	FY 2022	13.86	4.88	2.52	0.99	0.39
	FY 2021	20.56	8.45	4.78	0.85	NA
CHANGE %		-32.59%	-42.25%	-47.28%	16.47%	NA
11+- DAY SERVICE STANDARD						
ROOT CAUSE		 Transit Late Secondary Scan	 Transit Missing Outgoing Scan	 Unable to Assign	 Last Mile	 AADC Processing Delay-MMP to DPS Delay
POINT IMPACT	FY 2022	10.92	3.86	3.46	0.72	0.12
	FY 2021	17.79	7.08	1.94	0.93	NA
CHANGE %		-38.59%	-45.43%	78.51%	-22.69%	NA

Source: Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 Marketing Mail Root Cause.xlsx."

**Figure V-21  
USPS Marketing Mail Origin-Entered Flats  
FY 2022 National Top 5 Root Causes and Point Impact**

3-5-DAY SERVICE STANDARD					
ROOT CAUSE	 Transit Missing Outgoing Scan	 Last Mile	 Unable to Assign	 Transit Late Secondary Scan	 First Mile
FY POINT IMPACT 2022	5.17	3.46	2.86	2.17	0.85
FY 2021	8.52	3.67	5.24	3.54	2.47
<b>CHANGE %</b>	-39.38%	-5.67%	-45.68%	-38.64%	-65.73%
6-10-DAY SERVICE STANDARD					
ROOT CAUSE	 Transit Missing Outgoing Scan	 Unable to Assign	 Transit Late Secondary Scan	 Last Mile	 AADC Processing Delay: Non- Standard Flow
FY POINT IMPACT 2022	18.77	8.38	6.20	2.63	0.61
FY 2021	25.39	13.96	8.37	2.45	NA
<b>CHANGE %</b>	-26.07%	-39.97%	-25.89%	7.23%	NA
11+-DAY SERVICE STANDARD					
ROOT CAUSE	 Transit Missing Outgoing Scan	 Last Mile	 Unable to Assign	 Transit Late Secondary Scan	 AADC Processing Delay: Non- Standard Flow
FY POINT IMPACT 2022	13.57	4.19	2.53	1.24	0.36
FY 2021	21.50	5.54	3.60	1.77	NA
<b>CHANGE %</b>	-36.91%	-24.43%	-29.61%	-29.80%	NA

Source: Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 Marketing Mail Root Cause.xlsx."

In FY 2022, similar to First-Class Mail, the majority of the top five root causes for origin-entered USPS Marketing Mail categories were related to transportation and Last Mile. In general, the point impacts of the top five root causes decreased compared with FY 2021. With four exceptions, the point impacts of the top five root causes for USPS Marketing Mail were in the single digits in FY 2022. The four exceptions include: 6-10-Day USPS Marketing Mail letters and cards, with the point impact for the Transit Missing Outgoing Scan indicator at 13.86; 11+ -Day USPS Marketing Mail letters and cards, with the point impact for the Transit Late Secondary Scan indicator at 10.92; 6-10-Day USPS Marketing Mail flats, with the point impact for the Transit Missing Outgoing Scan indicator at 18.77 percent; and 11+ -Day USPS Marketing Mail flats with the point impact for the Transit Missing Outgoing Scan indicator at 13.57 percent. The Commission encourages the Postal Service to refine and apply its data leveraging techniques to improve service performance for all USPS Marketing Mail products that did not achieve their targets.

(6) Commission Findings and Directives

*Although on-time service performance scores increased for each USPS Marketing Mail product from FY 2021 to FY 2022, three products did not achieve their service performance targets in FY 2022: High Density and Saturation Flats/Parcels, Flats, and EDDM-R. Considering this, the Commission finds that High Density and Saturation Flats/Parcels, Flats, and EDDM-R were each out of compliance in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2023.*

*To monitor the Postal Service's initiatives to remediate service performance issues with respect to these non-compliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide information concerning the following matters for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2023).*

*The Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2023), and to provide specific detailed plans to improve these products' service performance, as described in items 1 and 2.*

- 1. The Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time results for these products by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for these products in FY 2023. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2023.*

2. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

- c. Periodicals

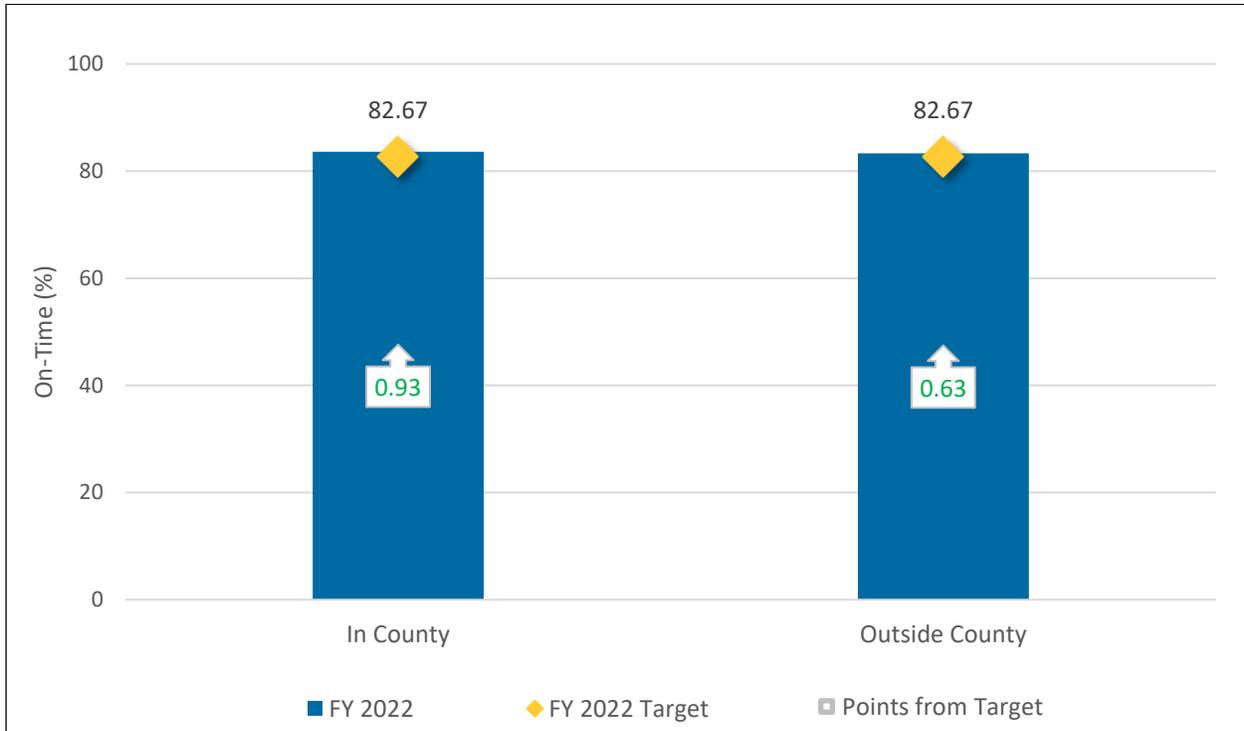
- (1) FY 2021 Directives

Finding that the two Periodicals products had not met their service performance targets since FY 2009 and had declined from FY 2020, the Commission found both In-County Periodicals and Outside County Periodicals to be out of compliance in FY 2021. FY 2020 ACD at 188. The Commission directed the Postal Service to provide the Commission the top five root cause point impacts for Periodicals for each quarter and annually in FY 2022. *Id.* Additionally, it required the Postal Service to evaluate the efficacy of its FY 2022 initiatives to improve service performance and provide a detailed plan to improve performance. *See id.* at 188-89. The Commission also directed the Postal Service to file national service performance results, disaggregated by month, for Periodicals in FY 2022. *Id.* at 189.

- (2) FY 2022 Results

Figure V-22 shows the service performance results compared to the annual targets for both Periodicals products for FY 2022.

**Figure V-22  
Periodicals  
Service Performance Results, by Percent, FY 2021**



Note: The Postal Service reports its targets to two decimal places; whereas results are reported to one decimal place. The difference between the target and the result is rounded to two places past the decimal point on this figure.

Source: FY 2022 Service Performance Report at 17.

Table V-6 summarizes service performance results compared to the annual targets for both Periodicals products for FY 2020, FY 2021, and FY 2022.

**Table V-6  
Periodicals  
Service Performance Results, by Percent, FY 2020–FY 2022**

Product	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target	FY 2022	FY 2022 Target
In-County	80.9	91.8	75.6	86.62	83.6	82.67
Outside County	80.7	91.8	75.0	86.62	83.3	82.67

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

### (3) Postal Service Report

The Postal Service explains that both Periodicals products exceeded their service performance targets in FY 2022. FY 2022 Service Performance Report at 18. It also emphasizes that scores “improved by roughly eight percentage points compared to FY 2021.” *Id.* at 19. The Postal Service also discussed several initiatives that it believes will improve service performance, described in greater detail in Section A.2.d., above.

As directed in the FY 2021 ACD, the Postal Service provided evaluations of the efficacy of its FY 2022 initiatives to improve service performance for both Periodicals products, as well as its plans to further remedy service performance for those products in FY 2023.<sup>245</sup> The Postal Service also, as directed, provided monthly service performance results for Periodicals.<sup>246</sup> Moreover, the Postal Service provided quarterly root cause point impact data for Periodicals in FY 2022. *See, e.g.*, Docket No. ACR2021, Third Response to Directives at 23.

### (4) Comments and Related Commission Analysis

The Public Representative notes that in FY 2022, both In-County and Outside County Periodicals met their service performance targets; however, he asserts that “this result appears to have been achieved due only to the lowering of Service Performance Targets from 91.8 percent in FY 2020 and 86.62 percent in FY 2021, down to 82.67 percent in FY 2022,” and that the FY 2022 service performance scores would have fallen short using the FY 2021 targets. PR Comments at 37-39. Further, the Public Representative notes that service standard changes, impacting 7 percent of Periodicals, makes it “difficult to conclude whether improved service performance results are due to improved Postal Service procedures or a change in service standards.” *Id.* at 39.

NMA asserts generally that “[t]he service provided to Periodicals mail, while facially improved by a marginal degree, remains unacceptable.” NMA Comments at 6. Specifically, NMA also notes that: (1) the Postal Service only measured about half of all Periodicals mail; (2) the Periodicals service standard in effect in FY 2022 was slower than that in FY 2021 due to the changes deriving from Docket No. N2021-1; (3) “achieving a target that is set far below the prevailing service standard (even one that was less demanding than in the previous year) is not acceptable;” (4) the FY 2023 target is merely 85.75 percent on-time delivery, far below the 95 percent target conveyed in the DFA Plan; and (5) the service standards for Periodicals will change once again due to the changes in CET reflected in Docket No. N2022-2, thus again “[m]oving the goalposts” for successful service performance. *Id.* at 7-8.

The Postal Service responds that not all Periodicals are measured because not all Periodicals are machine-processed and, therefore, they do not all receive the requisite

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<sup>245</sup> See FY 2022 Service Performance Report at 19-22; Docket No. ACR2021, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, June 27, 2022, at 24-27 (Docket No. ACR2021, Third Response to Directives).

<sup>246</sup> See Docket No. ACR2021, Third Response to Directives, Excel file “FY 2022 Monthly Data 5-10-22.xlsx.”

Start-the-Clock and Stop-the-Clock scans. Postal Service Reply Comments at 17. According to the Postal Service, however, the absence of unmeasured mailpieces does not “make[] the service performance score for Periodical Mail that is in measurement somehow inaccurate.” *Id.* The Postal Service notes that it did not change the service standards for Periodicals in order to improve service performance scores, but rather as “a necessary part of improving service reliability over the long run as they enable better operational precision and improve the Postal Service transportation and processing networks.” *Id.* at 12. It asserts that service performance improvement in FY 2022 demonstrates that these changes have already begun to have their intended effect. *Id.* Moreover, the Postal Service asserts that, in terms of the CET change for Periodicals, this change was required to enable better mail processing and service performance and is not germane to FY 2022 compliance. *Id.* at 17-18.

The Commission acknowledges that the changes in service standards for some Periodicals categories complicates the comparability of year-over-year on-time service performance results for these classes and suggests that the Postal Service endeavor to develop a method to accurately measure how service performance has changed for these mailpieces over time.

#### (5) Commission Analysis

The Periodicals class includes newspapers or other publications that meet applicable criteria for regular issuance, editorial and advertising content, circulation levels, and sortation/preparation requirements. *See* MCS § 1300.1. Both Periodicals products met their applicable 82.67 percent on-time target in FY 2022. FY 2022 results are 0.93 percentage points and 0.63 percentage points above target for In-County Periodicals and Outside County Periodicals, respectively. Overall, on-time performance for Periodicals increased from FY 2021 to FY 2022. Specifically, FY 2022 results increased 8.0 percentage points and 8.3 percentage points from FY 2021 results for In-County Periodicals and Outside County Periodicals, respectively. FY 2022 was the first year that Periodicals products met their applicable targets since FY 2009.<sup>247</sup> However, the Commission notes that the targets that the Postal Service set for Periodicals are the lowest Market Dominant product targets in effect during FY 2022. Service performance results for both Periodicals products remain below the levels observed in FY 2019 (before the outbreak of the COVID-19-pandemic), although both products’ FY 2022 results exceed their FY 2020 and FY 2021 results.

Table V-7 presents the quarterly service performance results for both Periodicals products for FY 2021 and FY 2022.

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<sup>247</sup> Prior to FY 2009, the Postal Service provided service performance data that were limited to certain categories of First-Class Mail and Package Services. *See* FY 2008 ACD at 41. For FY 2009 through FY 2011, the Postal Service applied a 91.0 percent on-time target to an aggregate Periodicals result. *See* FY 2011 ACD at 74 (comparing an aggregate result for both Periodicals products to the 91.0 percent target); FY 2010 ACD at 67 (same); FY 2009 ACD at 55 (same). Since FY 2012, the Postal Service has set separate (but equal) targets for each Periodicals product across all service standards. *See, e.g.,* FY 2012 ACD at 57 (comparing FY 2012 result to the 91.0 percent target for each product); FY 2018 ACD at 185 (comparing results for FY 2013 through FY 2017 to the 91.0 percent target for each product and FY 2018 results to the 91.8 percent target for each product); FY 2019 ACD at 128 (comparing FY 2019 result to the 91.8 percent target for each product); FY 2020 Service Performance Report at 17 (comparing FY 2020 result to the 91.8 percent target for each product).

**Table V-7**  
**Periodicals**  
**Service Performance Results, by Quarter, by Percent, FY 2021–FY 2022**

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2021	FY 2022						
In-County	69.8	80.8	71.5	81.4	79	86.6	82.7	86.8
Outside County	69.5	80.3	70.9	81.1	78.2	86.4	82.2	86.6

Note: **Red** text indicates service performance in the quarter FY 2022 was below service performance of the corresponding quarter in FY 2021. **Green** text indicates service performance in the quarter in FY 2022 was above service performance of the corresponding quarter in FY 2021.

Source: Library Reference USPS-FY22-29, Excel file "FY22 ACR Periodicals.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx."

Both Periodicals products experienced similar trends from FY 2021 to FY 2022. For both products, results were lower in the first half of the fiscal year (Quarters 1 and 2) than in the second half of the fiscal year (Quarters 3 and 4). The improvements in service performance observed in the second half of FY 2022 relative to the corresponding periods in FY 2021, was sufficient to offset the below-target results observed in the first half of FY 2022.<sup>248</sup> In addition, the results for every quarter in FY 2022 exceeded the results for the same period in FY 2021.<sup>249</sup>

Figure V-23 presents the top five root causes for failure of In-County and Outside County periodicals to be delivered on time in FY 2022, along with the corresponding change from FY 2021.

<sup>248</sup> Compare Library Reference USPS-FY22-29, Excel file "FY22 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation."

<sup>249</sup> Compare Library Reference USPS-FY22-29, Excel file "FY22 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation."

**Figure V-23  
In-County and Outside County Periodicals  
FY 2022 National Top 5 Root Causes and Point Impact**

ROOT CAUSE				
				
<b>Last Mile</b>	<b>Unable to Assign</b>	<b>Transit Missing Outgoing Scan</b>	<b>Transit Late Secondary Scan</b>	<b>First Mile</b>
POINT IMPACT				
<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>
5.56	3.31	2.56	1.23	1.09
<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>
5.80	5.31	5.67	2.42	3.86
CHANGE %				
-4.14%	-37.66%	-54.85%	-49.17%	-71.76%

Source: Library Reference USPS-FY22-29, Excel file "FY22 Periodicals Root Cause.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 Periodicals Root Cause.xlsx."

Relative to FY 2021, all top five root cause categories decreased in point impact in FY 2022. Last Mile failures decreased from 5.80 in FY 2021 to 5.56 in FY 2022, which represents a decrease of 4.14 percent, but remains the highest root cause of failure in FY 2022. The second highest root cause category, Unable to Assign, decreased in point impact from 5.31 in FY 2021 to 3.31 in FY 2022, which amounts to a decrease of 37.66 percent. As Figure V-23 shows, the point impacts of the remaining root causes decreased by even larger percentages from FY 2021 to FY 2022.

(6) Commission Findings and Directives

*The Commission is encouraged that both Periodicals products met their on-time service performance targets in FY 2022 and notes that the Postal Service has raised these targets for FY 2023. However, the targets set by the Postal Service for Periodicals remain below targets set for other Market Dominant products in FY 2022 and FY 2023 as well as below historic targets set for both Periodicals products. With this in mind, and because both Periodicals products performed below target from FY 2009 through FY 2021, the Commission directs the Postal Service to provide, for Periodicals products that do not meet their targets in FY 2023, specific detailed plans to improve service performance as described in items 1 and 2.*

1. *The Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2023. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023.*
2. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

d. Package Services

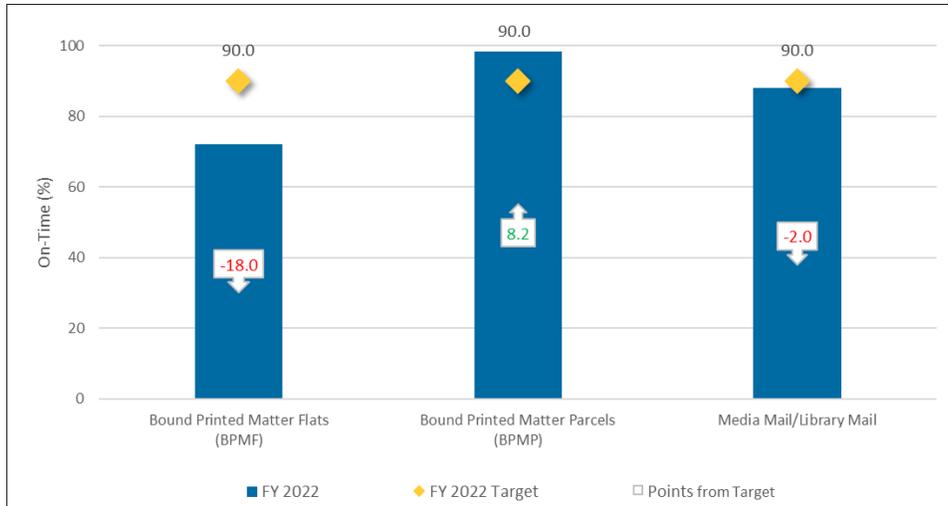
(1) FY 2021 Directives

The Commission found that FY 2021 was the tenth consecutive year that the service performance result for BPM Flats was below its target. FY 2021 ACD at 196. The Commission also found that service performance results for Media Mail/Library Mail fell below target for the fourth year in a row. *Id.* Thus, the Commission found both products to be out of compliance in FY 2021. *Id.* For these two products, the Commission directed the Postal Service to provide the Commission the top five root cause point impacts for each quarter and annually in FY 2022. *Id.* at 196. The Commission also directed the Postal Service to evaluate the efficacy of its FY 2022 initiatives to improve service performance and provide a detailed plan to improve performance in FY 2023. *Id.* at 197. The Commission also directed the Postal Service to file national service performance results, disaggregated by month, for both products in FY 2022. *Id.*

(2) FY 2022 Results

Figure V-24 shows the FY 2022 service performance results compared to the annual target of 90.0 percent on-time for Package Services products.

**Figure V-24  
Package Services  
Service Performance Results, by Percent, FY 2022**



Notes: The Postal Service reports its targets and results to one place past the decimal point. The Commission approved a semi-permanent exception for service measurement of Alaska Bypass Service. Docket No. RM2015-1, Order Concerning Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Alaska Bypass Service, December 23, 2014 (Order No. 2303).

Source: FY 2022 Service Performance Report at 24.

Table V-8 summarizes service performance results compared to the annual targets for Package Services products for FY 2020, FY 2021, and FY 2022.

**Table V-8  
Package Services  
Service Performance Results, by Percent, FY 2020–FY 2022**

Product	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target	FY 2022	FY 2022 Target
Bound Printed Matter Flats (BPMF)	55.7	90	61.7	90	72.0	90
Bound Printed Matter Parcels (BPMP)	98.5	90	97.5	90	98.2	90
Media Mail/Library Mail	80.9	90	79.2	90	88.0	90

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

### (3) Postal Service Report

The Postal Service reports that service performance for BPM Parcels exceeded its target in FY 2022. FY 2022 Service Performance Report at 26. It also notes that, while service performance for BPM Flats and Media Mail/Library Mail did not meet targets, it did improve compared both to FY 2021 and to pre-pandemic (FY 2019) levels. *Id.* It explains that because Package Services are “relatively low-volume products that are currently processed separately from other package products,” service performance improvements are more difficult to achieve. *Id.*

The Postal Service also identifies a number of initiatives that it contends should improve service performance specifically for package products going forward. For instance, it states that it installed additional package sorting machines in FY 2022 to provide added processing capacity. *Id.* It also explains that it intends to shift Media Mail/Library Mail and BPM from the Network Distribution Center (NDC) network to local Process & Distribution Centers (P&DCs), which it expects will increase processing consistency and achieve economies of scale. *Id.* at 27. For BPM Flats, the Postal Service intends to continue to improve service performance by employing the Cycle Time Diagnostics Tool to attempt to reduce cycle time and monitoring the OPP to better achieve SSOP compliance. *Id.* at 27-28.

As directed in the FY 2021 ACD, the Postal Service provided evaluations of the efficacy of its FY 2022 initiatives to improve service performance for Package Services products, as well as its plans to further remedy service performance for those products in FY 2023. *See id.* at 26-28; Docket No. ACR2021, Third Response to Directives at 30-31. The Postal Service also, as directed, provided monthly service performance results for Package Services.<sup>250</sup> Moreover, the Postal Service provided quarterly root cause point impact data for Package Services in FY 2022. *See, e.g.,* Docket No. ACR2021, Third Response to Directives at 29.

### (4) Comments and Related Commission Analysis

The Public Representative notes that on-time service performance targets for Package Services remained unchanged from FY 2020. PR Comments at 40. Only one product—BPM Parcels—met its target. *Id.* However, the Public Representative observes that Media Mail/Library Mail was within 2 percentage points of its target. *Id.* On the other hand, while BPM Flats’ on-time service performance score has improved, it still fell short of its target by a wide margin. *Id.*

The Commission acknowledges these observations and has taken them into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to improve service performance for BPM Flats and Media Mail/Library Mail, which are detailed below in Section V.A.4.d.6., *infra.*

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<sup>250</sup> See Docket No. ACR2021, Second Response to Directives, Excel file “FY 2022 Monthly Data 5-10-22.xlsx.”

## (5) Commission Analysis

Package Services are advertised as a cost-effective option, which may receive deferred service, for items that are not required to be mailed as First-Class Mail or Periodicals. *See* MCS § 1400.1. Service performance results for BPM Parcels exceeded the applicable service performance target in FY 2022. BPM Flats and Media Mail/Library Mail did not meet their service performance targets for FY 2022.

The two products that did not achieve their FY 2022 service performance targets, BPM Flats and Media Mail/Library Mail, have experienced service performance challenges for many years. BPM Flats has been below target for over a decade, while Media Mail/Library Mail has been below target for 5 consecutive years.

Table V-9 presents the quarterly service performance results for Package Services products for FY 2021 and FY 2022.

**Table V-9**  
**Package Services**  
**Service Performance Results, by Quarter, by Percent, FY 2021–FY 2022**

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2021	FY 2022						
Bound Printed Matter Flats (BPMF)	57.2	67.6	59.8	70.4	63.9	76.0	69.7	76.0
Bound Printed Matter Parcels (BPMP)	97.3	98.6	96.6	98.2	97.7	98.1	98.5	97.5
Media Mail/Library Mail	74.7	86.5	73.8	82.5	84.2	89.4	86.7	94.3

Note: **Red** text indicates service performance in the quarter FY 2022 was below service performance of the corresponding quarter in FY 2021. **Green** text indicates service performance in the quarter in FY 2022 was above service performance of the corresponding quarter in FY 2021.

Source: Library Reference USPS-FY22-29, Excel file "FY22 ACR Package Services.xlsx;" Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 ACR Package Services.xlsx."

Media Mail/Library Mail and BPM Flats experienced a similar trend as the majority of other Market Dominant products. In the first half of FY 2022 (Quarters 1 and 2) results were higher than in the second half of FY 2022 (Quarters 3 and 4). For BPM Parcels, scores were slightly lower in the second half of FY 2022 but remained well-above the target of 90 percent. With one exception, quarterly results increased for all Package Services products compared to the results for the same period in FY 2021.

Figure V-25 presents the top five root causes for the failure of the BPM Flats product to be delivered on time in FY 2022, with the corresponding change from FY 2021.

**Figure V-25  
Bound Printed Matter Flats  
FY 2022 National Top 5 Root Causes and Point Impacts**

ROOT CAUSE				
				
<b>Unable to Assign</b>	<b>Transit Late Secondary Scan</b>	<b>Last Mile</b>	<b>Transit Missing Outgoing Scan</b>	<b>First Mile</b>
POINT IMPACT				
<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2022</b>
9.79	5.96	5.20	3.82	2.75
<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2021</b>
17.53	7.32	4.80	3.73	4.00
CHANGE %				
-44.15%	-18.58%	8.33%	2.41%	-31.25%

Source: Library Reference USPS-FY22-29, Excel file "FY22 Bound Printed Matter Flats Root Cause.xlsx;" Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-21 of Chairman's Information Request No. 11, February 11, 2022, question 13.

BPM Flats experienced a significant improvement in service performance score compared with FY 2021 but still fell well below its FY 2022 target. While it is difficult to draw conclusions from the root cause data for BPM Flats between FY 2021 and FY 2022, three out of the top five root causes experienced a sizable decrease compared with FY 2021. The Unable to Assign indicator decreased from 17.53 in FY 2021 to 9.79 in FY 2022, a decrease of 44.15 percent. The Unable to Assign indicator is applied to mailpieces for which there is insufficient information to determine the root cause. FY 2022 Division Report at 5. As a result, it is impossible to determine at what point in processing such failures have occurred. The Transit Late Secondary Scan indicator and First Mile indicator also experienced a decrease in point impact compared with FY 2021, decreasing by 18.58 percent and 31.25 percent, respectively, but Last Mile failures increased by 8.33 percent between FY 2021 and FY 2022, a relatively small increase compared with the 25.89 percent increase between FY 2020 and FY 2021. The point impact of Transit Missing Outgoing Scan also increased in FY 2022, albeit by just 2.41 percent.

The Commission acknowledges the unique characteristics of BPM Flats, which are offered as a cost-effective option for business mailers<sup>251</sup> and advertised as potentially receiving deferred service. See DMM § 263.3.1.

(6) Commission Findings and Directives

*Although on-time service performance scores increased for each Package Services product from FY 2021 to FY 2022, two products did not achieve their service performance targets in FY 2022: BPM Flats and Media Mail/Library Mail. While the on-time performance result for BPM Flats increased from FY 2021 to FY 2022 by approximately 10 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2022 marks the eleventh consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2022 on-time performance result for Media Mail/Library Mail remains below target. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. Considering this, the Commission finds that BPM Flats and Media Mail/Library Mail were each out of compliance in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2023.*

*To monitor the Postal Service's initiatives to remediate these ongoing issues related to these non-compliant products, the Commission directs the Postal Service to evaluate the efficacy of the Postal Service's FY 2023 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) to improve on-time service performance for BPM Flats and Media Mail/Library Mail. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats and Media Mail/Library Mail, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

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<sup>251</sup> See United States Postal Service, *What is Bound Printed Matter Service?*, September 6, 2019, available at <https://faq.usps.com/s/article/What-is-Bound-Printed-Matter-Service>; see also MCS § 1415.1(c); DMM § 604.5.1.11. This product is not available at the retail counter; instead, business mailers must follow the preparation, deposit, and permit requirements to use this product. See United States Postal Service, *What is Bound Printed Matter Service?*; see also DMM § 604.5.1.11.

e. Special Services  
(1) FY 2021 Directives

Finding that two Special Services products (Post Office Box Service and Ancillary Services) failed to meet their service performance targets for FY 2021, the Commission deemed both to be out of compliance. FY 2021 ACD at 200. The Commission directed the Postal Service to evaluate the efficacy of its FY 2022 initiatives to improve service performance and provide a detailed plan to improve performance in FY 2023. *Id.* The Commission also directed the Postal Service to file national service performance results, disaggregated by month, for both products in FY 2022. *Id.*

(2) FY 2022 Results

Table V-10 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products for FY 2020, FY 2021, and FY 2022.

**Table V-10**  
**Special Services**  
**Service Performance Results, by Percent, FY 2020–FY 2022**

Special Services	Annual			
	% On-Time			Target
	FY 2020	FY 2021	FY 2022	
Ancillary Services	89.6	82.9	84.5	90.0
International Ancillary Services	99.8	99.9	99.9	90.0
Money Orders	93.1	98.9	99.9	90.0
Post Office™ Box Service	88.2	87.0	86.7	90.0
Stamp Fulfillment Services	79.1	91.7	99.8	90.0

Notes: The Postal Service reports its targets and results to one place past the decimal point. **Red** text indicates service performance was below target. **Green** text indicates service performance was above target.

The Commission approved a semi-permanent exception for service measurement of the following Special Services: hard-copy Address Correction Service, Applications and Mailing Permits, Business Reply Mail, Bulk Parcel Return Service, Certificate of Mailing, Merchandise Return Service, Parcel Airlift, Restricted Delivery, Shipper-Paid Forwarding, Special Handling, Stamped Envelopes, Stamped Cards, Premium Stamped Stationery, Premium Stamped Cards, International Certificate of Mailing, outbound International Registered Mail, International Return Receipt, International Restricted Delivery, International Insurance in conjunction with Inbound Surface Parcel Post (at UPU Rates), Customs Clearance and Delivery Fee, Caller Service, Change of Address Credit Card Authorization, International Reply Coupon Service, International Business Reply Mail, and Money Orders (sales aspect of this service only, not inquiries). Docket No. RM2010-11, Order Concerning Postal Service Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, September 3, 2010 (Order No. 531); Docket No. RM2010-14, Order Approving Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Applications and Mailing Permits, October 27, 2010 (Order No. 570).

Source: FY 2022 Service Performance Report at 30; FY 2021 Service Performance Report at 25.

### (3) Postal Service Report

The Postal Service notes that Post Office Box Service and Ancillary Services again failed to meet their service performance targets in FY 2022. FY 2022 Service Performance Report at 34. With respect to Post Office Box Service, the Postal Service reports that in FY 2022 it continued to suffer significant impacts from the COVID-19 pandemic-related employee unavailability, which led to employees sharing functions in the field and being unfamiliar with box sections in different offices. *Id.* To address these impacts, it attempted to better realign its Integrated Operating Plans (IOPs) and improve communication between customer service units and plant operations. *Id.* It also states that it will leverage advances in technologies to improve service performance going forward. *Id.* at 32-33. With respect to Ancillary Services, the Postal Service reports that Green Card performance presents the biggest area for service performance growth, while noting improvements in performance for insurance services and Ancillary Services as a whole. *Id.* at 32. It notes that it will continue to improve service performance for Ancillary Services by researching new technology for Certified Mail sortation, advancing field communication and instruction, and sharing service performance metrics and results with “opportunity offices.” *Id.* at 33-34.

As directed in the FY 2021 ACD, the Postal Service provided evaluations of the efficacy of its FY 2022 initiatives to improve service performance for Post Office Box Service and Ancillary Services, as well as its plans to further remedy service performance for those products in FY 2022. *Id.* at 32-34. The Postal Service also, as directed, provided periodic service performance results for Special Services.<sup>252</sup>

### (4) Comments and Related Commission Analysis

No commenters addressed the Special Services class specifically.

### (5) Commission Analysis

Special Services are offerings related to the delivery of mailpieces, including acceptance, collection, sorting, transportation, or other functions. *See* MCS § 1500.1. Many of these offerings are coupled with underlying mail matter (such as the services within the Ancillary Services and the International Ancillary Services products), whereas others are stand-alone services (such as Post Office Box Service, Money Orders, and Stamp Fulfillment Services). *See id.*

Service performance results for International Ancillary Services, Money Orders, and Stamp Fulfillment Services exceeded the applicable targets for FY 2022. Two products did not achieve their respective FY 2022 targets: Post Office Box Service and Ancillary Services.

Service performance results for Post Office Box Service have remained slightly below the target since FY 2015. For FY 2022, service performance results for Post Office Box Service were 3.3 percentage points below target and have been declining for the past several fiscal years. Service performance results for Ancillary Services first fell below target in FY 2020 and have remained below target since then. In FY 2022, despite a slight increase from FY

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<sup>252</sup> *See, e.g.,* Docket No. ACR2021, Second Response to Directives, Excel file “FY 2022 Monthly Data 5-10-22.xlsx.”

2021, the FY 2022 service performance result for Ancillary Services was 5.5 percentage points below target.

(6) Commission Findings and Directives

*Two Special Services products did not achieve their service performance targets in FY 2022: Post Office Box Service and Ancillary Services in FY 2022. Considering this, the Commission finds that Post Office Box Service and Ancillary Services were out of compliance in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2023.*

*To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these non-compliant products, the Commission directs the Postal Service to provide the following information in the FY 2023 ACR for Post Office Box Service and Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2023 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.*

## 5. Nonpostal Services

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. *See* 39 U.S.C. §§ 3703-3705. As a result, in Docket No. RM2022-7, the Commission established certain reporting requirements for nonpostal services, including that the Postal Service shall provide quantitative measures of service performance for nonpostal services annually (or, where unavailable, qualitative descriptions). *See* 39 C.F.R. § 3055.25. Specifically for interagency agreements (IAAs) under 39 U.S.C. § 3704, the Commission mandated that the Postal Service report the quality of service for the IAA program as a whole. *See id.* § 3055.25(c). The Commission also specified that the reporting requirements shall not go into effect until the beginning of FY 2024 to allow the Postal Service to set service standards and (if needed) file a petition for an exception from reporting pursuant to 39 C.F.R. § 3005.3. Order No. 6439 at 16-17. As a result, the Postal Service has not yet provided any service performance information for nonpostal services, and the Commission will therefore not evaluate these services in FY 2022.<sup>253</sup>

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<sup>253</sup> *See, e.g.*, FY 2022 ACR at 102 (noting that there were no agreements with state, local, or tribal governments in FY 2022 and that the Postal Service does not currently have a method to measure the service performance for IAAs); Docket No. RM2022-7, Comments of the United States Postal Service and Notice of Filing of Materials Under Seal, October 31, 2022, at 15 ("Certain nonpostal services may also lend themselves to quality-of-service reporting beyond the calculation of revenue; such reporting, however, would need to be tailored to the individual service in question, and should as such be developed on a case-by-case basis.").

## B. Customer Access

### 1. Introduction

The PAEA requires the Postal Service to report in the ACR “measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including...the degree of customer satisfaction with the service provided.”<sup>254</sup> 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. The FY 2022 ACR and Library Reference USPS-FY22-33 contain customer access information responsive to the requirements of Title 39 and the Commission’s regulations.<sup>255</sup> The Postal Service provided additional information in responses to CHIRs.<sup>256</sup>

The Postal Service also reported the number of retail facilities and delivery points in its *Annual Report to Congress (Annual Report)*.<sup>257</sup> In FY 2021, the Postal Service used two different databases to report the number of contractor-operated retail facilities, which caused large discrepancies in the numbers reported in the *FY 2021 Annual Report* and the FY 2021 ACR. FY 2021 ACD at 202-03. The Postal Service previously stated that in future ACRs it will report the number of contractor-operated retail facilities using only one database: the Contract Postal Unit Technology (CPUT) system.<sup>258</sup> In the FY 2021 ACD, the Commission reiterated the importance of reporting consistent information among the *Annual Report*, ACR, and CHIR responses. FY 2021 ACD at 203. For the FY 2022 filings, it directed the Postal Service to “report the number of retail facilities using data from the same system to ensure that information is accurate and consistent” for both retail facilities and delivery points among the *FY 2022 Annual Report*, FY 2022 ACR, and CHIR responses. *Id.* The Commission stated that if there are any discrepancies in the numbers reported, “the Postal Service must identify and reconcile them in the FY 2022 ACR instead of in CHIR responses.” *Id.*

The number of delivery points is consistent between the *FY 2022 Annual Report* and the FY 2022 ACR.<sup>259</sup> For FY 2022, the Postal Service reported the number of contractor-operated retail facilities (community Postal Offices (CPOs), contract postal units (CPUs), and Village Post Offices (VPOs)) in the *FY 2022 Annual Report* and FY 2022 ACR using only

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<sup>254</sup> 39 U.S.C. § 3652(a)(2)(B)(ii); see 39 C.F.R. § 3055.90.

<sup>255</sup> FY 2022 ACR at 84-87; Library Reference USPS-FY22-33, December 29, 2022.

<sup>256</sup> See Response to CHIR No. 4, questions 18-26; Response to CHIR No. 6, questions 6-9; Response to CHIR No. 7, questions 22-28; Response to CHIR No. 10, questions 23-26; Response to CHIR No. 12, questions 1-5.

<sup>257</sup> *FY 2022 Annual Report* at 28. Retail facilities are physical locations where the Postal Service offers products and services such as stamps and PO Boxes. See Section V.B.2., *infra*.

<sup>258</sup> Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-38 of Chairman’s Information Request No. 1, January 19, 2021, questions 5.e.-7.e. (Docket No. ACR2020, Response to CHIR No. 1).

<sup>259</sup> Compare *FY 2022 Annual Report* at 28, with Library Reference USPS-FY22-33, folder “USPS-FY22-33,” folder “FY22.33.Files,” Excel file “DeliveryPointsFY2022.xlsx,” tabs “Beginning FY” and “End FY.”

the CPUT system.<sup>260</sup> However, the number of retail facilities listed in the *FY 2022 Annual Report* differs from the FY 2022 ACR, Library Reference USPS-FY22-33, and CHIR responses.<sup>261</sup> In the FY 2022 ACR, the Postal Service does note a slight discrepancy in the number of carrier annexes reported in the *FY 2022 Annual Report* due to additional information discovered after the *FY 2022 Annual Report* was issued: specifically, two additional carrier annexes were opened during FY 2022. FY 2022 ACR at 84 n.26. However, when asked to confirm the number of contractor-operated retail facilities at the end of FY 2022, the Postal Service provided numbers that differed from the *FY 2022 Annual Report* and FY 2022 ACR. *See* Response to CHIR No. 4, questions 21-23.

The Postal Service provides two reasons for the discrepancies. First, it states that the CPUT system records all contracts for contractor-operated retail facilities and is updated whenever contracts are formed and terminated. Response to CHIR No. 4, question 21.e. It explains that CPUT system outputs can fluctuate, even when referring to a single point in time, as information is entered into the system. *Id.* Second, the Postal Service notes that a calculation error attributed some contract terminations to CPUs instead of VPOs. *Id.*

The Postal Service's reporting of the number of contractor-operated retail facilities improved compared to FY 2021 because it used numbers from only one database (the CPUT system). However, there continue to be discrepancies in the numbers reported that require reconciliation via CHIRs. *See* CHIR No. 4, questions 21-24; CHIR No. 7, questions 22-25. To facilitate transparency, the Postal Service could improve accuracy and consistency in the numbers reported via the CPUT system by, for example, requiring employees to enter information about new and terminated contracts within a certain time period (*e.g.*, 15 days). This requirement could help finalize the number of contractor-operated facilities at the end of the fiscal year because the CPUT system would reflect information about all the contracts formed and terminated during that fiscal year.

*The Commission reiterates the importance of providing consistent information among the Annual Report, ACR, and CHIR responses. In the FY 2023 Annual Report and the FY 2023 ACR, the Postal Service must continue to report the number of retail facilities using data from the same system to ensure that information is accurate and consistent. If there are any discrepancies in the number of retail facilities or delivery points, the Postal Service must identify and reconcile them in the FY 2023 ACR instead of in CHIR responses.*

## 2. Retail Facilities

The Postal Service offers products and services such as stamps and Post Office Boxes (PO Box) at retail facilities, which are operated either by the Postal Service (Postal Service-operated retail facilities) or third-party contractors (contractor-operated retail facilities). *See* 39 C.F.R. § 241.3(a)(2)(i), (ii). Postal Service-operated retail facilities consist of post

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<sup>260</sup> *See* *FY 2022 Annual Report* at 28 n.1; Response to CHIR No. 4, question 21.e.

<sup>261</sup> *Compare* *FY 2022 Annual Report* at 28, with FY 2022 ACR at 84; Response to CHIR No. 4, questions 21-24; Response to CHIR No. 7, questions 22-25.

offices, classified stations and branches, and carrier annexes. Classified stations and branches are managed by a post office located in a city that provides complete postal services to a geographic area and is generally where the Postmaster is located.<sup>262</sup> A classified station is located within the corporate limits or city carrier delivery area of the city or town where a post office is located.<sup>263</sup> In general, the name of the classified station does not contain the city name used in delivery addresses. *Id.* By contrast, a classified branch is located outside the corporate limits or city carrier delivery area of the city or town where a post office is located.<sup>264</sup> In general, the name of the classified branch contains the city name used in delivery addresses. *Id.* A carrier annex is a facility that in general provides only carrier operations and not retail services.<sup>265</sup>

Contractor-operated retail facilities consist of CPUs, CPOs, and VPOs. CPUs are located at supplier-owned or supplier-leased facilities that provide postal services to the public at Postal Service prices. Docket No. ACR2020, Response to CHIR No. 1, question 4. CPOs are CPUs that provide postal services in small communities, generally in areas where post offices have been discontinued, and usually bear their community's name and ZIP Code. *Id.* VPOs are similar to CPUs and CPOs but offer limited services such as Forever Stamps and Priority Mail Flat Rate packages. *Id.* Although VPOs may contain PO Boxes, the Postal Service is required to provide carrier service to PO Box holders. *Id.*

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well as the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1)-(3). This information must be disaggregated by type of retail facility and provided at the national and area levels. 39 C.F.R. § 3055.91(a). The Postal Service provided this information for FY 2022 in the *FY 2022 Annual Report*, FY 2022 ACR, Library Reference USPS-FY22-33, and CHIR responses.<sup>266</sup> This information is shown in Table V-11.

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<sup>262</sup> "Main Post Office," *Postal Service Glossary of Postal Terms*, available at <https://about.usps.com/publications/pub32.pdf>.

<sup>263</sup> *Id.* "Post Office station;" "Classified Station," United States Postal Service, *Postal Service-Operated Retail Facilities Discontinuance Guide*, Handbook PO-101, October 2012, Appendix A at 53 (Handbook PO-101). The Postal Service provided a copy of Handbook PO-101 in a CHIR response. Response to CHIR No. 10, question 25, PDF file "chir10\_q25\_po101.pdf."

<sup>264</sup> "Post Office branch," *Postal Service Glossary of Postal Terms*; "Classified Branch," Handbook PO-101, Appendix A at 53.

<sup>265</sup> "Carrier annex," *Postal Service Glossary of Postal Terms*.

<sup>266</sup> *FY 2022 Annual Report* at 28; FY 2022 ACR at 84-85; Library Reference USPS-FY22-33, Excel file "PostOfficesFY2022.xlsx," tab "Post Offices;" Response to CHIR No. 4, questions 21-24; Response to CHIR No. 7, questions 22-25.

**Table V-11**  
**Number of Retail Facilities, FY 2020–FY 2022**

Facility Type	FY 2020	FY 2021	FY 2022	FY 2022 Change from FY 2021	FY 2022 Change from FY 2020
<b>Post Offices</b>	26,361 <sup>a</sup>	26,361	26,269	-92	-92
<b>Classified Stations &amp; Branches and Carrier Annexes</b>	4,968	4,885	4,865	-20	-103
<b>Total Postal-Managed</b>	<b>31,329</b>	<b>31,246</b>	<b>31,134</b>	<b>-112</b>	<b>-195</b>
<b>Contract Postal Units</b>	1,914	1,820	1,733	-87	-181
<b>Village Post Offices</b>	441	411	377	-37	-65
<b>Community Post Offices</b>	441	419	398	-21	-43
<b>Total Non-Postal-Managed</b>	<b>2,796</b>	<b>2,650</b>	<b>2,508</b>	<b>-145</b>	<b>-289</b>
<b>Total Retail Facilities</b>	<b>34,125</b>	<b>33,896</b>	<b>33,642</b>	<b>-257</b>	<b>-484</b>

<sup>a</sup> The Postal Service identified a “phantom office” in their FY 2020 count of post offices, resulting in an updated count of 26,361 post offices for FY 2020 instead of 26,362. Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman’s Information Request No. 1, January 18, 2022, question 6.

Source: Response to CHIR No. 7, questions 22-25. These data, derived from the CPUT system, represent the most up-to-date information provided by the Postal Service.

The total number of retail facilities in FY 2022 was 33,642, which was 257 less than FY 2021. Between FY 2021 and FY 2022, the number of contractor-operated retail facilities declined for each facility type (CPU, VPO, and CPO). The largest decrease between FY 2021 and FY 2022 was in the number of CPUs, which decreased by 87. The Commission will continue to monitor the number of retail facilities in the FY 2023 ACD to ensure customers have continued access to postal services.

### 3. Post Office Suspensions

For each fiscal year, the Postal Service must provide information on the number of suspended post offices<sup>267</sup> at the beginning and end of the fiscal year, as well as the number of post offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4)-(6). Section V.B.3.a. discusses post office suspension activity during FY 2022. Section V.B.3.b. discusses the status of the post offices suspended at the end of FY 2016, an issue the Commission has been concerned about and required quarterly reporting on for the last several fiscal years.<sup>268</sup>

<sup>267</sup> A post office is suspended when the Postal Service stops operations at a post office because an emergency or other condition requires such action. “Emergency Suspension,” Handbook PO-101, Appendix A at 54. Circumstances that may justify suspending a post office include natural disasters, termination of a lease or rental agreement when suitable alternate quarters are not available, lack of qualified personnel to operate the retail facility, irreparable or severe damage to the retail facility, challenge to the sanctity of the mail, and lack of adequate measures to safeguard the retail facility or its revenues. Handbook PO-101 at 39.

<sup>268</sup> See 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, at 2, 21 (Order No. 6101).

a. Post Office Suspension Activity during FY 2022

The Postal Service filed data on the number of suspended post offices in Library Reference USPS-FY22-33,<sup>269</sup> which the Postal Service updated in a CHIR response.<sup>270</sup> This library reference also includes data on post offices reopened and closed during FY 2022. Table V-12 shows post office suspension activity during FY 2022 by facility type. It lists the number of suspended post offices at the beginning and end of FY 2022, as well as the number of post offices suspended, reopened, and closed during FY 2022. The number of suspended post offices at the end of FY 2022 is calculated by adding the number of post offices suspended during the fiscal year to the number of suspended post offices at the beginning of the fiscal year, and then subtracting the number of post offices reopened and closed during the fiscal year. Table V-12 shows that the total number of suspended post offices decreased by 44 in FY 2022. At the end of FY 2022, there were a total of 381 suspended post offices. This decrease was primarily driven by the Postal Service issuing final determinations to close 119 post offices.

**Table V-12**  
**Post Office Suspension Activity during FY 2022**

	Under Suspension at the Start of FY 2022	Suspended During FY 2022	Offices Suspended Prior FYs and Reopened During FY 2022	Offices Suspended During FY 2022 and Reopened During FY 2022	Closed During FY 2022	Under Suspension at the End of FY 2022
<b>Post Offices</b>	334	89	20	16	92	295
<b>Stations/Branches</b>	90	18	3	0	26	79
<b>Carrier Annexes</b>	1	7	0	0	1	7
<b>Total</b>	<b>425</b>	<b>114</b>	<b>23</b>	<b>16</b>	<b>119</b>	<b>381</b>

Source: Response to CHIR No. 7, questions 26, 27.a., Excel file "CHIR7\_Qs26-27\_PostOfficesFY2022.xlsx" tab "Suspension Summary."

Note: The numbers in Table V-12 reflect the most up-to-date numbers reported by the Postal Service.

b. Status of Post Offices Suspended at the end of FY 2016

(1) Background

For the past few years, the Commission has monitored the Postal Service's progress in resolving suspended post offices, primarily via its ACR review. *See, e.g.*, FY 2021 ACD at 206-11. In the FY 2015 ACD, the Commission expressed concerns about the large number of unresolved suspended post offices, which had nearly tripled since FY 2012. FY 2015 ACD at 150. In the FY 2016 ACD, the Commission directed the Postal Service to begin filing quarterly reports on the status of the post offices suspended at the end of FY 2016. FY 2016 ACD at 151. Beginning in FY 2017, the Postal Service has filed quarterly reports on the

<sup>269</sup> Library Reference USPS-FY22-33, folder "USPS-FY22-33," folder "FY22.33.Files," Excel file "PostOfficesFY2022.xlsx," tab "Suspension Summary."

<sup>270</sup> Response to CHIR No. 7, questions 26, 27.a., Excel file "CHIR7\_Qs26-27\_PostOfficesFY2022.xlsx" tab "Suspension Summary."

status of these suspended post offices and included year-end information in the ACR. These reports did not include the status of post offices suspended after FY 2016.

Quarterly reports from FY 2017 through FY 2021 are described in detail in the FY 2021 ACD and Order No. 6101.<sup>271</sup> In FY 2020 and FY 2021, there were several factors impeding the Postal Service's ability to resolve suspended post offices, including the COVID-19 pandemic, the Postal Service organizational restructuring, and the Postal Service's business decision to pause all customer-facing activities for the remaining suspended post offices.<sup>272</sup> As an intermediary measure, the Postal Service stated it has closely examined the remaining suspended post offices to "[identify] those suspensions that can be resolved outside the PO-101 discontinuance process and independently of the customer-facing activities on which that process relies." FY 2021 ACR at 81. It also identified various causes underlying the remaining suspensions and mapped steps taken regarding each suspended post office. *Id.* Of the post offices suspended at the end of FY 2016, 207 remained suspended at the end of FY 2021. FY 2021 ACD at 210.

On February 3, 2022, the Commission established Docket No. PI2022-1 to identify and address issues impeding the Postal Service's progress in resolving suspended post offices in a timely manner. Order No. 6101 at 3. The Commission received public input regarding suggested procedures or courses of action for how the Postal Service may expeditiously resolve suspended post offices. In the FY 2021 ACD, the Commission expressed concerns about the accuracy of the post office suspension information reported by the Postal Service in the ACR, Library Reference USPS-FY21-33, and CHIR responses. FY 2021 ACD at 210. It emphasized the importance of providing accurate information to properly evaluate the suspended post offices and conduct related data analyses. *Id.* at 211. The Commission directed the Postal Service to continue filing quarterly reports on the status of the suspensions remaining from FY 2016 that reflect the most accurate data currently available to the Postal Service. *Id.* It also directed that each quarterly report identify and reconcile any discrepancies or differences from the prior report. *Id.*

## (2) FY 2022 Post Office Suspension Activity

In FY 2022, the Postal Service continued to file quarterly reports on the status of the remaining post offices suspended at the end of FY 2016.<sup>273</sup> The Postal Service also filed the report for FY 2023, Quarter 1.<sup>274</sup> In the FY 2022 ACR, the Postal Service explains that it

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<sup>271</sup> See FY 2021 ACD at 207-09; Order No. 6101 at 21-26. The post office suspension numbers in this section do not match some of the numbers in the FY 2021 ACD and Order No. 6101 because the Postal Service continually updates these numbers in subsequent filings. See Docket No. ACR2020, Ninth Response of the United States Postal Service to Commission Request for Additional Information in the FY 2020 Annual Compliance Determination, February 9, 2022. The numbers in this section reflect the most up-to-date numbers reported by the Postal Service.

<sup>272</sup> FY 2022 ACR at 87-88. These factors are described in detail in recent ACDs. See FY 2020 ACD at 213-18; FY 2021 ACD at 207-09.

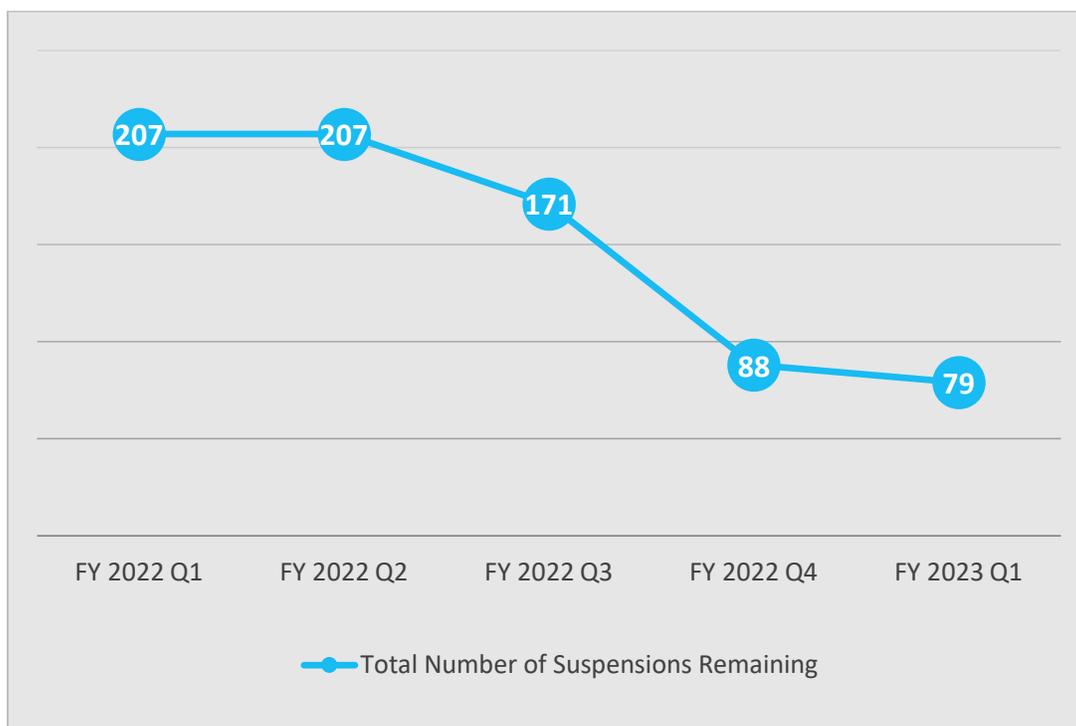
<sup>273</sup> Docket No. ACR2021, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, May 10, 2022, question 6; Docket No. ACR2021, Fourth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, August 9, 2022, question 6; Docket No. ACR2021, Fifth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, November 9, 2022, question 6.

<sup>274</sup> Docket No. ACR2021, Sixth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, February 9, 2023, question 6 (Docket No. ACR2021, Sixth Response).

identified several suspended post offices that may be resolved via the post office discontinuance process in Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*.<sup>275</sup> Consequently, the Postal Service was able to resolve 36 suspended post offices in FY 2022, Quarter 3; 83 suspended post offices in FY 2022, Quarter 4; and 9 suspended post offices in FY 2023, Quarter 1. FY 2022 ACR at 88-89.

Figure V-26 shows the number of suspended post offices resolved during each quarter of FY 2022 and FY 2023, Quarter 1. Figure V-26 shows that of the 663 post offices suspended at the end of FY 2016, 79 remained suspended at the end of FY 2023, Quarter 1.

**Figure V-26**  
**Number of Suspended Post Offices Remaining by Quarter**  
**For 207 Post Offices Suspended at the end of FY 2021<sup>a</sup>**



<sup>a</sup> This number does not include post offices suspended after the end of FY 2016.

In the FY 2022 ACR, the Postal Service proposed a three-pronged approach to resolving the remaining suspended post offices. FY 2022 ACR at 89. First, it states it plans to resolve 40 suspended post offices via the post office discontinuance process in Handbook PO-101, which it targets completing in June 2023. *Id.* Second, the Postal Service plans to assemble a team to review documentation for those suspended post offices that have incomplete internal dockets preventing them from completing the post office discontinuance process. *Id.*; Response to CHIR No. 10, question 26.a. Third, in FY 2023, Quarter 2, the Postal Service

<sup>275</sup> FY 2022 ACR at 88. Order No. 6101 describes the post office discontinuance process in detail. Order No. 6101 at 11-18.

plans to lift the pause on customer-facing activities to allow community meetings to resume, which is necessary to complete the post office discontinuance process. FY 2022 ACR at 89. It states that lifting the pause on customer-facing activities should allow the Postal Service to discontinue those suspended post offices that cannot be reopened or relocated. *Id.*

In the FY 2021 ACD, the Commission directed that the FY 2022 ACR “include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2022.” FY 2021 ACD at 211. CHIR No. 10 asked for details and a timeline for resolving the post offices suspended after the end of FY 2016. CHIR No. 10, question 26. In its response, the Postal Service states that it is unable to provide a timeline for completing the post office discontinuance process for all remaining suspended post offices because timelines for resolving individual suspended post offices vary. Response to CHIR No. 10, question 26.b. It points out that a timeline would be further impacted by newly suspended post offices that require resolution. *Id.* It notes that for post offices with incomplete internal dockets, “the review process will include completion of the necessary steps, and the date of its completion cannot at this time be predicted.” *Id.*

### (3) Comments

The Public Representative states that he is encouraged by the Postal Service’s progress in resolving the backlog of suspended post offices. PR Comments at 46. He comments that the Postal Service took a sensible course of action in focusing its resolution efforts on those suspended post offices that had almost completed the post office discontinuance process. *Id.* He observes that forming a team to review incomplete dockets was also a sensible approach because tracking suspended post offices is time consuming considering that post offices are routinely suspended during the year due to storm damage and other safety issues. *Id.* He recommends that the Postal Service reexamine its post office discontinuance process to find ways to expedite and/or reduce the complexity of the process. *Id.*

### (4) Commission Analysis

In FY 2022, the Postal Service made significant progress in resolving the remaining post offices suspended at the end of the FY 2016. Although no suspensions were resolved during FY 2022, Quarters 1 and 2, the Postal Service resolved 119 suspended post offices during FY 2022, Quarters 3 and 4, which was more than half of the remaining suspended post offices at the end of FY 2021 (207). The Postal Service continued this progress during FY 2023, Quarter 1 by resolving 9 more suspended post offices, with only 79 suspended post offices remaining from the end of the FY 2016.

The Postal Service’s approach of identifying suspended post offices eligible for the post office discontinuance process in Handbook PO-101 was successful in resolving many suspended post offices while ensuring that customers received adequate notice and opportunity to comment on potential discontinuances. In FY 2023, the Postal Service plans to resolve all remaining suspended post offices by: (1) continuing to identify suspended post offices eligible for the discontinuance process in Handbook PO-101; (2) reviewing documentation for those suspended post offices that have incomplete internal dockets; and

(3) lifting the pause on customer-facing activities to allow community meetings to resume. FY 2022 ACR at 89. This approach is logical because many of the remaining suspended post offices have incomplete docket information or have not yet completed their community meeting.<sup>276</sup> However, it is unclear how the Postal Service plans to resolve post offices suspended after the end of FY 2016. Besides the 79 suspended post offices remaining from FY 2016, 302 post offices were suspended between FY 2017 and FY 2022. The total number of suspended post offices at the end of FY 2022, as reported by the Postal Service, is shown in Figure V-27:<sup>a</sup>

**Figure V-27**  
**Remaining Suspended Post Offices**  
**At the End of FY 2022**



<sup>a</sup> FY 2022 ACR at 89.

<sup>b</sup> This number was calculated as the number of suspensions the Postal Service reported at the end of FY 2022 (381) minus the 79 suspensions remaining from FY 2016. The net number of post offices suspended between FY 2017 and FY 2022 is 302. It does not include post offices that were suspended and subsequently reopened or closed during this time period.

<sup>c</sup> Response to CHIR No. 7, question 27.a.

Note: The numbers in Figure V-27 reflect the most up-to-date numbers provided by the Postal Service.

*In FY 2023, the Postal Service should strive to resolve the 79 suspended post offices remaining from the end of FY 2016. The Commission directs the Postal Service to continue filing quarterly reports on the status of these suspended post offices. The Postal Service must file this information within 40 days after the end of each quarter in FY 2023 and in FY 2024 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed in Docket No. ACR2021 on February 21, 2023.<sup>277</sup>*

<sup>276</sup> See Library Reference USPS-FY22-33, folder "USPS-FY22-33," folder "FY22.33.Files," Excel file "PostOfficesFY2022.xlsx," tab "Incomplete Docket."

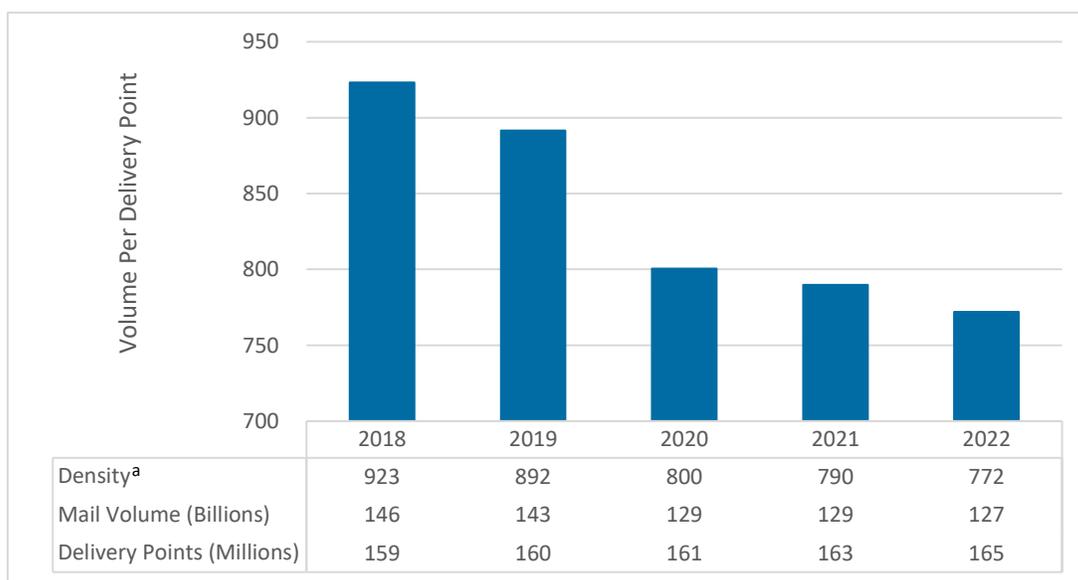
<sup>277</sup> See Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 35, February 21, 2023, Excel file "acr2021\_chir35\_suspensiondata.xlsx."

Each quarterly report must reflect the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet.<sup>278</sup> If the Postal Service does not resolve the 79 remaining suspended post offices by the end of FY 2023, it must explain why in the FY 2023 ACR, as well as how it plans to resolve them in FY 2024. Also, the FY 2023 ACR must include a detailed plan and timeline for resolving post offices suspended from FY 2017 through FY 2023.

#### 4. Delivery Points

The Postal Service is required to provide information on the number of residential and business delivery points at the beginning and end of the fiscal year. 39 C.F.R. § 3055.91(b). The Postal Service provided this information for FY 2022 in Library Reference USPS-FY22-33 and in the *FY 2022 Annual Report*.<sup>279</sup> The total number of delivery points in FY 2022 was 164,904,092, an increase of 1,764,925 from FY 2021. *FY 2022 Annual Report* at 28. Figure V-28 shows the volume per delivery point between FY 2018 and FY 2022.

**Figure V-28**  
**Annual Volume per Delivery Point, FY 2018–FY 2022**



<sup>a</sup> Density is the Market Dominant and Competitive volumes divided by the number of delivery points.

Source: FY 2021 ACD at 212; Commission calculation is based on *FY 2022 Annual Report* at 26, 28.

The Commission has been tracking delivery point data since the enactment of the PAEA, when volume per delivery point was at its highest level of 1,458 mailpieces per delivery

<sup>278</sup> For example, the spreadsheet could highlight cells that differ from the prior report or describe any corrections in the Excel spreadsheet.

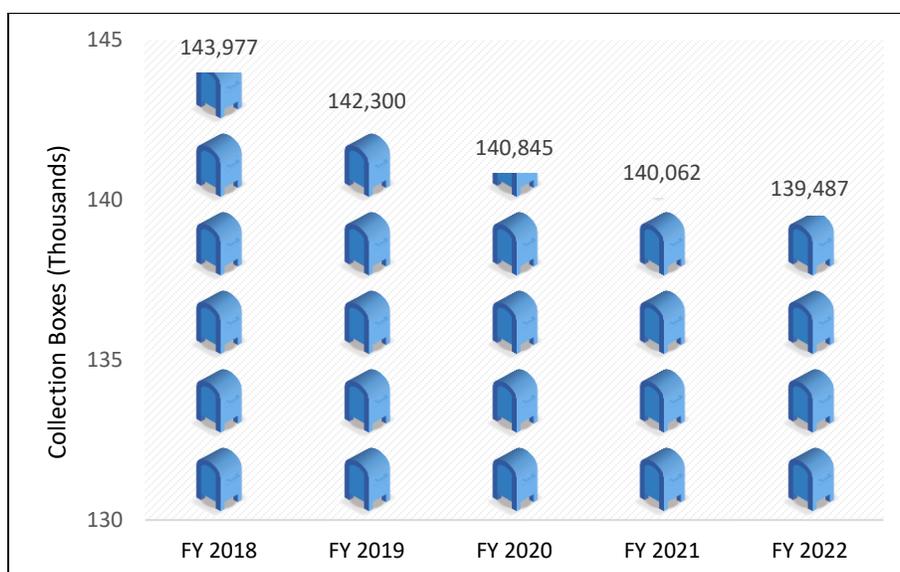
<sup>279</sup> Library Reference USPS-FY22-33, folder "USPS-FY22-33," folder "FY22.33.Files," Excel file "Delivery Points FY2022.xlsx;" *FY 2022 Annual Report* at 28.

point in FY 2006. Volume per delivery point was 772 in FY 2022, a 47 percent decrease since FY 2006.

## 5. Collection Boxes

A collection box is a container dedicated to collecting mail deposited by customers.<sup>280</sup> The Postal Service must provide, at the national and Area levels, information on the number of collection boxes at the beginning and end of the fiscal year, as well as the number of collection boxes added and removed during the fiscal year. 39 C.F.R. § 3055.91(c). The Postal Service filed this data for FY 2022 in Library Reference USPS-FY22-33 and a CHIR response.<sup>281</sup> Nationally, there were 139,487 collection boxes at the end of FY 2022, 575 fewer than in FY 2021. Library Reference USPS-FY22-33, folder “USPS-FY22-33,” folder “FY22.33.Files,” Excel file “CollectionBoxesFY2022.xlsx,” cells C9 and G9. Figure V-29 shows historical data on the number of collection boxes between FY 2018 and FY 2022.

**Figure V-29**  
**Number of Collection Boxes**  
**FY 2018–FY 2022**



Source: Library Reference USPS-FY22-33, folder “USPS-FY22-33,” folder “FY22.33.Files,” Excel file “CollectionBoxesFY2022.xlsx.”

The Postal Service reports that during FY 2022, 655 collection boxes were removed, and 88 collection boxes were installed in new locations. Response to CHIR No. 4, question 19. These numbers are not consistent with Library Reference USPS-FY22-33, which shows that

<sup>280</sup> The Postal Service defines “collection box” as “[a] four-footed, free-standing blue-painted street box that is used by the public to deposit outgoing prepaid letters, flats, and lightweight parcels. It has a rounded top and a protective opening cut in near the top that pivots to open and close to receive and protect the items.” “Collection Box,” Postal Service *Glossary of Postal Terms*.

<sup>281</sup> Library Reference USPS-FY22-33, folder “USPS-FY22-33,” folder “FY22.33.Files,” Excel file “CollectionBoxesFY2022.xlsx;” Response to CHIR No. 4, question 19.

575 collection boxes were removed in FY 2022. The Postal Service confirms that an aggregate of 575 collection boxes was removed in FY 2022. Response to CHIR No. 7, question 28.a. It explains that it obtains collection box data from two different data sets: one derived from the blue box collection schedules at the beginning and end of the fiscal year; and the other reflecting field inputs for creating, removing, and changing blue box locations. *Id.* The Postal Service states that the aggregate reduction of collection boxes in FY 2022 (575) was obtained using data sets from the blue box collection schedules, which it asserts are the most reliable source because they are monitored continuously. *Id.* It explains that the reported number of collection boxes added (655) and removed (88) were obtained using the data sets from field inputs, which is a less reliable source. *Id.* The Postal Service states it is communicating with the developers of the field input data sets to try to identify and resolve all discrepancies. *Id.*

The Postal Service also confirms that, in FY 2022, it continued to follow procedures specified in the Postal Operations Manual (POM) for conducting an annual density test of collection boxes to determine which ones to remove. Response to CHIR No. 6, question 7.b. The POM states that mail from collection boxes located in primarily residential areas is generally collected when mail is delivered.<sup>282</sup> To justify its location, a collection box must have a 25-piece daily average, which is calculated using a density testing process prescribed by the POM. POM § 311.a. The process for conducting a density test involves using an actual count for letters or recording a linear measurement of letters contained in the collection box; converting the linear measurement to pieces at 227 pieces per foot (or current conversion figure); and adding actual piece counts for flats and small parcels. POM § 314.3. Density tests should be conducted during a continuous 2-week period and must be performed at least annually. *Id.*

The POM states that “[c]ollection boxes averaging less than 25 pieces a day should be relocated within the neighborhood or community to a potentially higher volume location.” *Id.* § 315.3. If the Postal Service exhausts potential relocation options, the collection box may be removed if approved by the Area manager, Delivery Programs Support. *Id.* §§ 313.33, 315.3. Before removing or relocating a collection box, the Postal Service must place a notice on the box 30 days before the removal or relocation showing the locations and collection schedules for other collection points in the area.<sup>283</sup> The Postal Service states that when determining whether to remove a collection box, aside from density, it considers factors such as the appearance and condition of collection boxes as well as the security of its location due to vandalism and/or tampering. Response to CHIR No. 6, question 7.c.; POM §§ 315.1, 315.4.

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<sup>282</sup> United States Postal Service, Postal Operations Manual § 311.a., July 2002 (updated with revisions through April 30, 2022) (POM). The Postal Service filed a PDF of the most recent version of the POM with a CHIR response. Response to CHIR No. 10, question 23, PDF file “chir10\_q23\_pom.pdf.”

<sup>283</sup> *Id.* § 315.3. A collection box that has been vandalized or tampered with may be removed immediately without notice if the Area manager, Delivery Programs Support, determines that the location is insecure. *Id.* § 315.4.

*The Commission will continue to monitor the number of collection boxes in Docket No. ACR2023. In the FY 2023 ACR, the Postal Service must continue to report, at the national and area levels, information on the number of collection boxes at the beginning and end of FY 2023. The FY 2023 ACR must also include the number of collection boxes added to new locations and removed during FY 2023 as required by 39 C.F.R. § 3055.91(c)(3) and (4). If there are any discrepancies between the number of collection boxes at the beginning and end of FY 2023 and the number of collection boxes added and removed during FY 2023, the Postal Service must reconcile these discrepancies in the FY 2023 ACR.*

*In FY 2023, the Commission recommends that the Postal Service continue conducting annual density testing of collection boxes consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2023 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.*

## 6. Wait Time in Line

The Postal Service must report the average customer wait time in line for retail service at the beginning of the fiscal year and at the end of each successive fiscal quarter at the national and Area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2022 in Library Reference USPS-FY22-33.<sup>284</sup> The national average wait time in line improved at the national level from 2 minutes 48 seconds in FY 2021 to 2 minutes 20 seconds in FY 2022. FY 2022 ACR at 85. Table V-13 shows the national average customer wait time in line annually and by quarter for FY 2018 through FY 2022.

**Table V-13**  
**National Average Wait Time in Line (in Minutes)**  
**by Quarter, FY 2018–FY 2022**

Quarter	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Quarter 1	2:18	2:25	1:57	3:14	2:30
Quarter 2	2:28	2:34	2:06	3:15	2:33
Quarter 3	2:04	1:54	2:59	2:38	2:17
Quarter 4	1:53	1:39	3:05	2:05	1:59
<b>Annual</b>	<b>2:11</b>	<b>2:08</b>	<b>2:26</b>	<b>2:48</b>	<b>2:20</b>

Source: Library Reference USPS-FY22-33, folder "USPS-FY22-33," folder "FY22.33.Files," Excel file "WaitTimeInLine FY2022.xlsx," tab "Nat'l Avg Wait Time by Qtr FY22;" FY 2021 ACD at 215.

Table V-13 shows that in FY 2022, the national average wait time in line increased slightly between Quarter 1 and Quarter 2, but improved significantly during Quarters 3 and 4 to 1 minute 59 seconds in Quarter 4. This table also shows that in FY 2022, wait time in line for

<sup>284</sup> Library Reference USPS-FY22-33, folder "USPS-FY22-33," folder "FY22.33.Files," Excel file "WaitTimeInLine FY2022.xlsx."

each quarter improved compared to FY 2021. The Postal Service describes measures it has undertaken to continue to minimize wait time in line, which include:

- Daily Retail Customer Experience (CX) reporting and weekly CX Point of Sale reporting to retail leaders
- Various communications disseminated to retail employees to train them on how to help customers in line to facilitate transactions and conduct model transactions that respect the customer's time
- Retail Gemba assessments during peak season and as needed<sup>285</sup>
- Relocating 72 Self-Service Kiosks (SSKs) and adding 24 new SSKs in FY 2023<sup>286</sup>
- Deployment of Rapid Dropoff Stations to expedite Label Broker® pre-paid parcel acceptance transactions, which the Postal Service plans to expand in FY 2023<sup>287</sup>
- Daily reporting to ensure that all post offices are effectively using systems and tools to prevent gaps in employee scheduling
- Scheduled visits by Postmasters and/or managers of post office operations to retail facilities identified as "vital" based on key performance indicators
- A weekly cadence of district and area meetings to discuss wait time in line data, determine the root causes of extended wait times, and develop action items to reduce wait time in line within 7-14 days
- Direct engagement with post offices that have exceeded wait time targets<sup>288</sup>

CHIR No. 4 asked the Postal Service to describe which measures were most effective in reducing wait time in line. CHIR No. 4, question 26.a. The Postal Service responds that SSK transaction rates increased by 3.3 percent between FY 2021 and FY 2022. Response to CHIR No. 4, question 26.a. It posits that wait time in line improved because the Postal Service strategically relocated SSKs from locations with lower transaction rates to those with higher transaction rates. *Id.*

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<sup>285</sup> During a Retail Gemba Assessment, trained staff visit post offices to evaluate work practices at these locations, identify opportunities for improvement, and advise employees how to take advantage of these opportunities. Response to CHIR No. 4, question 26.c. These assessments help inform and coach both employees and managers how to improve their performance to decrease wait time in line. *Id.*

<sup>286</sup> There were 2,730 SSKs operating at the end of FY 2022. Response to CHIR No. 4, questions 18.a.-b. The Postal Service explains that it relocates SSKs based on utilization rates for each site and the corresponding "gaining site," which is the site to where the SSK is moved. *Id.* It states that low customer utilization was the driving factor when relocating SSKs in FY 2022, and gaining sites are based on several factors, including walk-in revenue, transaction types, Window Operations Survey hours, wait time in line scores, pre-paid acceptance rates, Internet and power sources, and 24-hour lobby availability. *Id.* question 18.c.

<sup>287</sup> The Rapid Dropoff Station, which was piloted nationally in FY 2021 and FY 2022, is a self-service, non-revenue retail lobby technology that allows customers to conduct prepaid mail acceptance transactions with receipts, helps with Label Broker® transactions, and features screen mirroring technology to provide a contactless option for customers. FY 2022 ACR at 86 n.28. The Label Broker® secure repository allows authorized merchants to store label data and images for deferred printing. *Id.* These merchants then provide a "Label Identifier" to their customers via a QR Code on their mobile phone that customers can use to retrieve the label and via USPS.com and at post offices equipped with Retail Systems Software. *Id.*

<sup>288</sup> FY 2022 ACR at 86-87.

In FY 2022, wait time in line improved both quarterly and nationally compared to FY 2021. The Postal Service has taken appropriate steps to improve wait time in line, including employee and management training as well as using technology to facilitate transactions. The Commission will monitor wait time in line in Docket No. ACR2023 to ensure continued improvement.

*The Commission encourages the Postal Service to continue implementing strategies designed to improve wait time in line in FY 2023. In the FY 2023 ACR, the Postal Service must describe actions taken during FY 2023 to improve wait time in line and explain which actions were most and least effective in reducing wait time in line. If wait time in line worsens during FY 2023, the FY 2023 ACR should:*

- *Explain why wait time in line increased and identify factors contributing to the increase*
- *Describe plans for improving wait time in line during FY 2024 that include specific actions, strategies, and initiatives designed to address factors contributing to increased wait time in line, such as reduced employee availability*

## 7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to provide customer access through alternative access channels, which allow customers to obtain postal products and services outside of traditional brick and mortar post offices. Alternative access channels include:

- Stamp Sales by Partners – stamps sold by key suppliers such as Costco, Walmart, and other retailers
- SSKs – transactions performed via SSKs in lobbies of retail facilities
- Stamps by Mail/Phone – online stamp ordering via usps.com
- Contractor-operated retail facilities – revenue from CPUs, CPOs, and VPOs
- Click-N-Ship – an online mail service allowing customers to create an account, buy postage for packages, and schedule pick up service
- Other alternative access points – online services, commemorative stamp sales and philatelic products, stamped envelope sales, Approved Shipper sales, Forever Stamps, and Stamps to Go<sup>289</sup>

The Commission previously recommended that the Postal Service expand alternative access channels to ensure customers have ready access to essential postal services.<sup>290</sup> The Postal Service provided a table containing information on retail revenue from post offices

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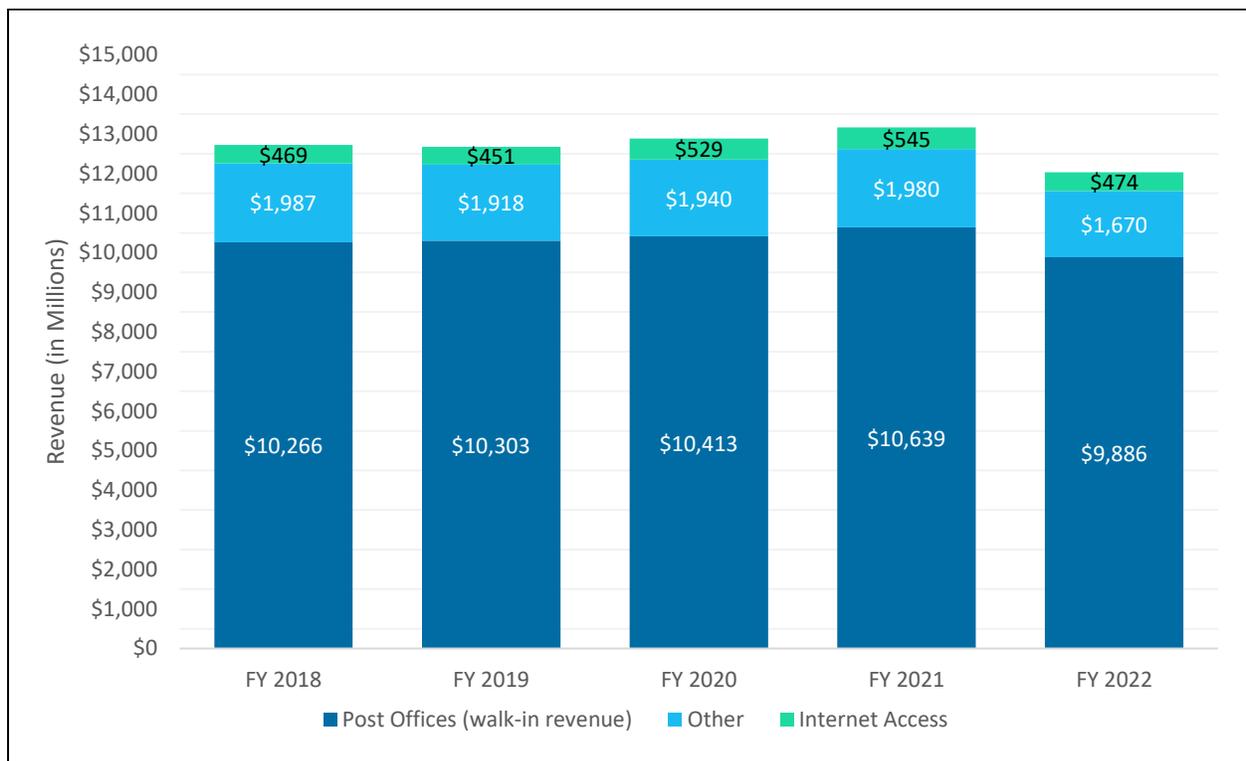
<sup>289</sup> Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-18 of Chairman's Information Request No. 13, February 17, 2022, questions 2.b.i., b.iv. (Docket No. ACR2021, Response to CHIR No. 13).

<sup>290</sup> Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

and alternative access channels for FY 2021 and FY 2022 in a CHIR response. Response to CHIR No. 4, question 25. Figure V-30 compares retail revenue by channel from FY 2018 through FY 2022 in three categories:

- Post Offices (walk-in revenue from post offices and contractor-operated retail facilities)<sup>291</sup>
- Internet Access (Click-N-Ship)
- Other (including Stamp Sales by Partners, SSKs, Stamps by Mail/Phone, and other alternative access points)

**Figure V-30**  
**Retail Revenue, by Channel, FY 2018–FY 2022**



Source: Response to CHIR No. 4, question 25; FY 2021 ACD at 218.

Figure V-30 shows that in FY 2022, revenue from all retail revenue channels declined substantially. Overall, the revenue decline between FY 2021 and FY 2022 was approximately \$1.13 billion, or 8.60 percent. Of the channels, Post Offices (walk-in-revenue) experienced the smallest decrease (7.07 percent). However, the Other and

<sup>291</sup> Post office revenue consists of retail postage; retail services (insurance, certified mail, registered mail, signature confirmation, etc.); and retail product sales (stamps, greeting cards, packaging products, money orders, etc.). Docket No. ACR2021, Response to CHIR No. 13, question 4.b.

Internet Access channels decreased by approximately 15.66 percent and 12.87 percent, respectively. Since the Commission began actively tracking retail revenue by channel metrics in FY 2012, the Post Offices (walk-in-revenue) and Other channels have trended towards year-over-year revenue reductions. That trend continued in FY 2020 and FY 2021, but the effects were offset by the COVID-19 pandemic-induced change in consumer behavior that saw a surge in revenue for the Internet Access channel. The results observed in FY 2022 are a product of a continued revenue reduction for the Post Offices (walk-in-revenue) and Other channels while simultaneously seeing a return to “normal” consumer behavior with respect to the Internet Access channel.

Alternative access channels allow customers to obtain postal products and services with limited interpersonal contact. These channels have been particularly important during the COVID-19 pandemic, as people have strived to minimize their exposure by remaining at home, which minimizes visits to brick and mortar post offices and conducting transactions in person. The substantial decline in retail revenue for all channels is concerning. The Commission will continue to monitor alternate access channels to ensure that customers have regular and effective access to postal services in all communities.

*The Commission recommends that the Postal Service continue to expand alternative access channels to ensure customers have continued access to essential postal services. If revenue from retail channels continues to decline across the board in FY 2023, the Postal Service must identify the root causes for these declines and describe plans to address them in the FY 2023 ACR.*

## **C. Customer Satisfaction with Market Dominant Products**

### **1. Background**

The PAEA requires the Postal Service to report “measures of the degree of customer satisfaction with the service provided” for each Market Dominant product. 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90. The Postal Service measures customer satisfaction with Market Dominant products and CX generally using surveys. The ACR must include a copy of each type of customer survey and information obtained from each survey. 39 C.F.R. § 3055.92. This information must include a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each multiple-choice question, disaggregated by each possible response. *Id.* The Postal Service provided the surveys and other customer satisfaction information in the FY 2022 ACR and Library Reference USPS-FY22-38.<sup>292</sup>

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<sup>292</sup> FY 2022 ACR 75-84; Library Reference USPS-FY22-38, December 29, 2022, folders “FY22.38.Files,” PDF file “CX\_Surveys\_FY22.pdf” (CX Surveys).

In FY 2022, the Postal Service measured CX using eight surveys: Business Service Network, Point of Sale, Delivery, Customer Care Center, Customer 360, Large Business Panel, Business Mail Entry Unit, and USPS.com.<sup>293</sup> Each survey measures a customer touchpoint or interaction between the customer and the Postal Service. For example, the Point of Sale survey measures CX at retail facilities with Point of Sale systems. Library Reference USPS-FY22-38, Preface at 3.

In this section, the Commission evaluates “the degree of customer satisfaction with the service provided” for Market Dominant products as required by 39 U.S.C. § 3652(a)(2)(B)(ii). “Customer satisfaction” in this section refers specifically to customer satisfaction with Market Dominant products. Other topics related to CX—including the surveys, FY 2022 targets and results, and CX metrics—will be analyzed in detail in the Commission’s forthcoming *Analysis of the FY 2022 Annual Performance Report and FY 2023 Annual Performance Plan*.

To measure customer satisfaction with Market Dominant products, the Postal Service uses data from the Delivery and Large Business Panel surveys for three types of customers: residential, small/medium business, and large business. FY 2022 ACR at 75. The Delivery survey measures residential and small/medium business customer satisfaction with receiving mail and packages. Library Reference USPS-FY22-38, Preface at 3. In FY 2022, residential and small/medium business customers were randomly selected, mailed a weekly invitation to take the Delivery survey, and given the option to complete the survey by phone or online.<sup>294</sup>

The Large Business Panel survey measures customer satisfaction of large businesses with 500 or more employees. Library Reference USPS-FY22-38, Preface at 5. A third-party vendor manages customers who sign up to participate in the survey panel. *Id.* The Large Business Panel survey is conducted monthly to account for seasonal variation for Market Dominant products. FY 2022 ACR at 76. In this section, the Delivery and Large Business surveys are together referred to as the Customer Satisfaction surveys.

The Customer Satisfaction surveys ask residential, small/medium business, and large business customers about their experience using several domestic and international mailing services, such as First-Class Mail International and Media Mail.<sup>295</sup> Customers were asked to rate their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied. CX Surveys at 35-36, 65-66. The customer satisfaction result for each mailing service is expressed as the percentage of customers who

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<sup>293</sup> Library Reference USPS-FY22-38, PDF file “USPS-FY22-38 Preface.pdf,” at 1-2 (Preface).

<sup>294</sup> *Id.* The Postal Service states that “[r]esidential and small/medium business customers were sufficiently sampled to ensure, at the District-level, a minimum precision level of +/- 5 percentage points, at the 90 percent level of confidence per postal quarter.” FY 2022 ACR at 75.

<sup>295</sup> CX Surveys at 35-36, 65-66. The Customer Satisfaction surveys group classes and products into mailing services. Although the surveys also ask about customer satisfaction with Competitive products such as Priority Mail, the ACR is required to include “measures of the quality of service afforded by the Postal Service” for each Market Dominant product, including “the degree of customer satisfaction with the service provided.” 39 U.S.C. § 3652(a)(2)(B)(ii). For this reason, the ACD analyzes customer satisfaction with Market Dominant products.

selected Very Satisfied or Mostly Satisfied. *See* FY 2022 ACR at 76-77; FY 2021 ACR at 73-74.

In the FY 2021 ACD, the Commission directed the Postal Service to “[d]escribe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2022 to improve residential and small/medium business customer satisfaction with Market Dominant products” and “[e]xplain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction for each customer type.” FY 2021 ACD at 227. In the FY 2022 ACR, the Postal Service responds that in FY 2022, it continued to support all mailers, including residential and business customers, by educating them about postal products, product requirements, mailing standards, and operational processes and collaborating with industry associations, alliance partners, and Postal Customer Councils. FY 2022 ACR at 78.

The Postal Service describes two initiatives aimed at improving residential and small/medium business customer satisfaction with Market Dominant products. *Id.* at 79. First, the Postal Service states it conducted a market test for USPS Connect Local Mail that allows businesses to send documents locally the same day or next day using a fast, convenient service. *Id.* It notes that target mailers include law firms, real estate firms, medical offices, and event organizers, and mailers and recipients must both be in the same delivery unit. *Id.* Second, the Postal Service states that it rolled back of prices for EDDM-R to pre-COVID 19 pandemic levels to encourage mailers to use a combination of EDDM-R and USPS Connect Local. *Id.* at 80. It explains that “lower prices were intended to encourage small and medium-sized businesses to use EDDM-Retail to reach out to local customers to let them know about their products and also use [USPS] Connect Local to get the products to the customers quickly and economically once they were ordered.” *Id.*

The Postal Service acknowledges that between FY 2021 and FY 2022, Market Dominant product satisfaction declined across all customer types for domestic First-Class Mail, as well as all products for large business customers except for USPS Retail Ground and Media Mail. *Id.* However, it points out that these declines were “relatively modest,” and Market Dominant product satisfaction results for large business customers were generally better in FY 2022 compared to FY 2020. *Id.* It describes several challenges affecting product satisfaction and mailer use of various mail classes, including the ongoing diversion from mail to electronic communications, the economic downturn, the lingering effects of the COVID-19 pandemic, ongoing paper and ink shortages/costs, and higher labor costs. *Id.* The Postal Service acknowledges that increases to postage rates could have adversely affected Market Dominant product satisfaction but maintains that these rate increases are necessary to address its financial situation and consistent with its *Delivering for America* 10-Year Strategic Plan. *Id.* at 81.

CHIR No. 12 asked the Postal Service to explain how actions taken in FY 2022 to improve Market Dominant product satisfaction impacted results for each customer type (residential, small/medium business, and large business). CHIR No. 12, question 3. The Postal Service responds that actions taken in FY 2022 to improve Market Dominant

product satisfaction affected results for residential customers that received same-day or next-day service through USPS Connect Local Mail, as well as information about local products through EDDM-R. Response to CHIR No. 12, question 3. For small/medium business and large business customers, the Postal Service explains that Market Dominant product satisfaction results were impacted by the following:

- The Plus One product was an additional offering for marketing campaigns<sup>296</sup>
- Larger sized post cards expanded the space for messaging<sup>297</sup>
- Businesses could send documents locally within the same day or next day via USPS Connect Local Mail<sup>298</sup>
- Promotions offered higher discounts to business customers<sup>299</sup>

Response to CHIR No. 12, question 3. For small/medium business customers, the Postal Service also notes that lower prices for EDDM-R promoted outreach to local customers. *Id.*

CHIR No. 12 also asked the Postal Service to explain how each of the factors contributing to declines in customers satisfaction with domestic First-Class Mail products described above affected each customer type in FY 2022. CHIR No. 12, question 5. The Postal Service responds that digital diversion provided residential, small/medium business, and large business customers with more alternatives for mail products, which may have altered their expectations regarding important factors such as convenience, speed, and costs. Response to CHIR No. 12, questions 5.a.-c. It states that the lingering effects of the COVID-19 pandemic, as well as paper and ink shortages/costs, may have caused residential customers to experience delays in receiving mail. *Id.* As a result, these delays may have made it more complicated for small/medium business and large business customers to use the mail. *Id.* For small/medium business and large business customers, the Postal Service notes that increases in postage rates also increased the cost of doing business, which may have adversely affected Market Dominant product satisfaction.

## 2. Commission Analysis

For each customer type, Table V-14 compares customer satisfaction results for select Market Dominant mailing services between FY 2021 and FY 2022. Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a Market Dominant mail class or category.

<sup>296</sup> In FY 2022, the Commission approved the Postal Service's proposal to convert Plus One from an experimental to a permanent offering. See Docket No. MC2022-20, Order Approving Addition of Plus One to the Mail Classification Schedule, January 4, 2022 (Order No. 6081).

<sup>297</sup> In FY 2021, the Commission approved the Postal Service's proposal to update the size limitation. See Docket No. MC2021-104, Order Approving Update to the Maximum Size Limit for Presorted First-Class Mail Postcards, July 28, 2021 (Order No. 5946).

<sup>298</sup> In FY 2022, the Commission approved the Postal Service's proposal to proceed with a market test for USPS Connect Local Mail, which 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. Docket No. MT2022-1, Order Authorizing Market Test of Experimental Product – USPS Connect Local Mail, January 4, 2022 (Order No. 6080).

<sup>299</sup> The Postal Service proposed promotions for First-Class Mail and USPS Marketing Mail for calendar year 2022, which the Commission reviewed and approved. Order No. 5937 at 16; Order No. 6188 at 44.

**Table V-14**  
**Customer Satisfaction with**  
**Market Dominant Mailing Services, by Percentage**  
**FY 2021–FY 2022**

Market Dominant Products (Mailing Services)	Residential Customers		Small/Medium Business Customers		Large Business Customers	
	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022
First-Class Mail Domestic	79.14%	77.07%	78.26%	77.92%	85.57%	85.06%
First-Class Mail International	76.27%	77.79%	71.39%	75.30%	89.75%	87.89%
USPS Marketing Mail	N/A		71.85%	73.56%	83.50%	83.43%
Periodicals	N/A		80.46%	81.84%	84.58%	82.84%
Media Mail	79.47%	80.37%	77.51%	80.69%	83.43%	83.48%
Library Mail	76.25%	76.03%	75.52%	76.78%	83.88%	83.70%

N/A - Residential customers were not asked about their satisfaction with this mailing service.

Source: FY 2022 ACR at 74.

Overall, in FY 2022, Market Dominant product satisfaction improved or remained the same for each customer type. In the FY 2021 ACD, the Commission expressed concerns about the decline in Market Dominant product satisfaction for residential and small/medium business customers. FY 2021 ACD at 226. These concerns were addressed in FY 2022. Table V-14 shows that for residential and small/medium business customers, between FY 2021 and FY 2022, Market Dominant product satisfaction increased or remained approximately the same for each product except for domestic First-Class Mail.<sup>300</sup> Overall, Market Dominant product satisfaction for residential and small/medium business customers improved compared to FY 2021, which showed satisfaction declines across all products. *See* FY 2021 ACD at 224. The only decline in Market Dominant product satisfaction for both residential and small/medium business customers was with domestic First-Class Mail, which decreased slightly by 2.07 and 0.34 percentage points, respectively. However, these declines are small considering that Market Dominant product satisfaction for residential and small/medium business customers declined significantly by 12.30 and 11.81 percentage points, respectively, between FY 2020 and FY 2021. *See id.*

For large business customers, Market Dominant product satisfaction results were approximately the same (within 1 percentage point) between FY 2021 and FY 2022. Market Dominant product satisfaction declined slightly for First-Class Mail International

<sup>300</sup> Residential Market Dominant product satisfaction for Library Mail decreased by less than one percentage point between FY 2021 (76.25%) and FY 2022 (76.03%).

and Periodicals by 1.86 and 1.74 percentage points, respectively. However, First-Class Mail International had the highest Market Dominant product satisfaction result.

In FY 2022, of the measured Market Dominant products, results for thirteen out of sixteen mailing services (approximately 81 percent) either improved or remained within 1 percentage point of the FY 2021 result. The increase in USPS Connect Local Mail transaction volume during FY 2022, Quarter 4 could have improved residential and small/medium business customer satisfaction with Market Dominant products during that quarter, especially for customers in the Southern area in FY 2022.<sup>301</sup> The Commission will continue to monitor customer satisfaction with Market Dominant products for all customer types in FY 2023.

*In FY 2023, the Postal Service should continue to take appropriate actions to maintain Market Dominant product satisfaction for residential, small/medium business, and large business customers. In the FY 2023 ACR, for each customer type, the Postal Service must:*

- *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2023 to improve customer satisfaction with Market Dominant products*
- *Explain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction*
- *Explain how these actions, plans, initiatives, and strategies impacted FY 2023 results*

*If customer satisfaction with Market Dominant products declines for any customer type between FY 2022 and FY 2023, the FY 2023 ACR must explain why, as well as how the Postal Service will address these declines in FY 2024. When responding to these directives, the FY 2023 ACR must group explanations and descriptions by customer type (residential, small/medium business, and large business) or otherwise identify which explanations and descriptions apply to each customer type.*

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<sup>301</sup> See Docket No. MT2022-1, Letter to Secretary Erica A. Barker Providing USPS Connect Local Mail Data Collection Report for FY 2022, Quarter 4, November 10, 2022.

# Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports

## Workshare Discounts with 100 Percent Passthroughs:

- *The Commission reminds the Postal Service that in any rate adjustment proceeding before the FY 2023 avoided costs are filed, the Postal Service cannot change the workshare discounts identified in Table II-1 consistent with 39 C.F.R. § 3030.282(a). FY 2022 ACD, Chapter II.*

## Workshare Discounts with Passthroughs that Exceed 100 Percent:

- *In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-2 into compliance with 39 C.F.R. § 3030.283, which could include aligning workshare discounts with avoided costs or explaining how the workshare discount complies with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, the workshare discounts identified in Table II-2 cannot be increased in any rate adjustment proceeding before the FY 2023 avoided costs are filed consistent with 39 C.F.R. § 3030.282(b). FY 2022 ACD, Chapter II.*

## Workshare Discounts with Passthroughs Under 85 Percent:

- *In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-3 into compliance with 39 C.F.R. § 3030.284, which could include aligning workshare discounts with avoided costs or explaining how the workshare discount complies with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, all workshare discounts set below their FY 2022 avoided costs, including those identified in Table II-3, cannot be decreased in any rate adjustment proceeding before the FY 2023 avoided costs are filed consistent with 39 C.F.R. § 3030.282(c). FY 2022 ACD, Chapter II.*

**Market Dominant, Non-Compensatory Classes:**

- Periodicals:
  - *The Commission reiterates its longstanding findings that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, including Periodicals costs, these costs have risen over time.*
  - *Although the Commission analyzes inefficiencies in flats operations and the impact of these initiatives on the cost of Periodicals in its forthcoming Flats Study, the Postal Service should also monitor its costs and develop a plan to further reduce Periodicals costs. FY 2022 ACD, Chapter III.*
  - *The Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its revenue by strategically pricing Periodicals. FY 2022 ACD, Chapter III.*

**Market Dominant, Non-Compensatory Products in Compensatory Classes:**

- USPS Marketing Mail Flats:
  - *The Commission finds that the cost coverage for USPS Marketing Mail Flats remains severely deficient, despite improvement in FY 2022. FY 2022 ACD, Chapter III.*
  - *The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, 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. FY 2022 ACD, Chapter III.*
  - *The Commission urges the Postal Service to continue to pursue cost reductions, while it concludes its analysis of inefficiencies in flats operations and the impact of initiatives on the cost of flat-shaped products as part of its Flats Study. FY 2022 ACD, Chapter III.*
  - *The Commission removes the directives related to USPS Marketing Mail Flats stemming from the FY 2010, FY 2015, FY 2018, and FY 2019 through FY 2021 ACDs. FY 2022 ACD, Chapter III.*
- USPS Marketing Mail Carrier Route:
  - *The Commission finds that the FY 2022 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost, but the product's cost coverage showed improvement. FY 2022 ACD, Chapter III.*

- *The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, 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. FY 2022 ACD, Chapter III.*
- *The Commission urges the Postal Service to continue to pursue cost reductions, while it concludes its analysis of inefficiencies in flats operations and the impact of initiatives on the cost of flat-shaped products as part of its Flats Study. FY 2022 ACD, Chapter III.*
- USPS Marketing Mail Parcels:
  - *The Commission finds that the FY 2022 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable cost, but the product's cost coverage showed improvement. FY 2022 ACD, Chapter III.*
  - *The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must propose a price increase for USPS Marketing Mail Parcels that is at least 2 percentage points above the average for the class. FY 2022 ACD, Chapter III.*
  - *The Commission encourages the Postal Service to continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels, and the Postal Service shall report on those opportunities and results in the FY 2023 ACR. FY 2022 ACD, Chapter III.*
- Package Services—Media Mail/Library Mail:
  - *The Commission finds that the FY 2022 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. FY 2022 ACD, Chapter III.*
  - *The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the prices of Media Mail/Library Mail by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting Package Services through the issuance of the FY 2023 ACD. FY 2022 ACD, Chapter III.*
- Special Services—Money Orders:
  - *The Commission finds that the FY 2022 revenue for Money Orders was not sufficient to cover attributable cost. FY 2022 ACD, Chapter III.*
  - *The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the price of Money Orders by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting*

*the Special Shervices class through the issuance of the FY 2023 ACD. FY 2022 ACD, Chapter III.*

- *The Commission encourages the Postal Service to continuously look for ways to reduce the unit costs of Money Orders. FY 2022 ACD, Chapter III.*
- *The Commission also directs the Postal Service to include a discussion of the initiatives identified in response to the OIG's recommendation to reduce window service costs for Money Orders, including the current status of each initiative, in the FY 2023 ACR. FY 2022 ACD, Chapter III.*

### **Competitive Products, Cross-Subsidization:**

- *The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2022. FY 2022 ACD, Chapter IV.*

### **Competitive Products, Cost Coverage, Domestic:**

- *The Commission finds that, in FY 2022, every Competitive domestic product with rates of general applicability covered its attributable cost and, thereby, satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2). FY 2022 ACD, Chapter IV.*

### **Competitive Products, Cost Coverage, Negotiated Service Agreements:**

- *The Commission finds that Priority Mail Contract 543 was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. The Commission directs the Postal Service to renegotiate higher prices for that contract or terminate the contract. FY 2022 ACD, Chapter IV.*
- *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary. FY 2022 ACD, Chapter IV.*

**Competitive Products, Cost Coverage, International:**

- International Money Transfer Service—Inbound:
  - *The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. FY 2022 ACD, Chapter IV.*
  - *The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product during FY 2023. FY 2022 ACD, Chapter IV.*
  - *Should the progress towards this goal include modifications rather than terminations of international postal money order agreements, the Commission directs the Postal Service to report the details of any agreement's modifications, including the impact on the IMTS—Inbound product's reportable transactions and revenues, as part of its FY 2023 ACR filing. FY 2022 ACD, Chapter IV.*
  - *The Commission also directs the Postal Service to provide data on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2023 as part of its FY 2023 ACR filing. These data shall include additional details, such as country of origin, number of paper and electronic money orders, and information on whether they were issued by an FPO or other financial institution (if any). These data shall also include information on the number of money orders cashed at Postal Service retail windows and those cashed at U.S. banks. FY 2022 ACD, Chapter IV.*
- International Money Transfer Service—Outbound:
  - *The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022. FY 2022 ACD, Chapter IV.*
  - *The Commission encourages the Postal Service to monitor the impact of the price increases that took effect in July 2022 on the product based on information available before the Postal Service files its next request to adjust prices of general applicability for Competitive products and encourages the Postal Service to request further price increases as necessary based on its continued assessment of the impact of the July 2022 price increases on the cost coverage of the IMTS—Outbound product. FY 2022 ACD, Chapter IV.*
- International Ancillary Services—Inbound Competitive International Registered Mail:
  - *The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2022 because one of its sub-components, Inbound Competitive International Registered Mail, did not cover cost. FY 2022 ACD, Chapter IV.*

- *The Commission directs the Postal Service to produce in the FY 2023 ACR and in all future ACRs a table that includes revenue, pieces, volume-variable costs, product-specific costs, total costs, contribution, and cost coverage of inbound registered items under MCS section 2615.2 (Competitive International Registered Mail, Inbound Competitive International Registered Mail), as well as inbound registered items that were attributed to other products, including MCS section 2515.10 (Inbound Competitive International Multi-Service Agreements with Foreign Postal Operators), that are in effect during the relevant fiscal year. FY 2022 ACD, Chapter IV.*

### **Competitive Products, Cost Coverage, Competitive Outbound International Products Consisting of Negotiated Service Agreements:**

- **Outbound:**
  - *The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for one Competitive outbound international NSA in Docket No. CP2020-193 that did not cover its attributable cost. FY 2022 ACD, Chapter IV.*
  - *The Commission recommends that the Postal Service continually monitor the financial performance of each outbound international NSA and take steps to terminate or renegotiate agreements that are non-compensatory. FY 2022 ACD, Chapter IV.*
  - *The Commission also urges the Postal Service to update its accounting processes to ensure that the FY 2023 ACR includes all latest available terminal dues and other international delivery rates. FY 2022 ACD, Chapter IV.*
  - *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary. FY 2022 ACD, Chapter IV.*
- **Inbound:**
  - *The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product.*

- *The Commission recommends that the Postal Service continually monitor the financial performance of each inbound international NSA and take steps to terminate or renegotiate agreements that are non-compensatory.*
- *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 7, 2023, and the last such report due January 8, 2024. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.*

### **Competitive Products, Cost Coverage, Nonpostal Services:**

- *The Commission concludes that Competitive Nonpostal Services satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded the attributable cost for each product. FY 2022 ACD, Chapter IV.*

### **Competitive Products, Appropriate Share:**

- *The Commission finds that in FY 2022 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs. FY 2022 ACD, Chapter IV.*

### **Competitive Products, Pilot Program—Gift Cards:**

- *The Commission directs the Postal Service to report quarterly information on the Pilot Program and the Gift Card product as a whole.<sup>1</sup> The report shall be filed in Docket No. MC2022-60 and shall include information on volume, revenue, and costs (which should include training-related costs, labor costs associated with the retail transactions, and supply costs) separately for Gift Cards purchased as part of the Pilot Program and all Gift Cards. The report must also include whether Gift Cards, both in general and those sold as part of the Pilot Program, are likely to be mailed or otherwise promote the use of the mail (for example, number of Gift Cards purchased in a transaction that included other postal products). Finally, the report must include any plans for modifications or other future plans of the Pilot Program or Gift Card product, including any plans for termination of the Pilot Program.*

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<sup>1</sup> Chairman Kubayanda and Commissioner Poling do not agree with including the Gift Card product as a whole in this directive.

**Competitive Products, Pilot Program—Interagency Agreements:**

- *Consistent with 39 U.S.C. § 3705(b)(2), the Commission directs the Postal Service to develop a proposed methodology (or methodologies) for calculating and attributing costs and revenue to interagency agreements authorized under 39 U.S.C. §§ 3703 and 3704. The Postal Service shall initiate a rulemaking proceeding (or proceedings) concerning such methodology (or methodologies) in accordance with 39 C.F.R. § 3050.11 no later than May 31, 2023.*

**Service Performance Measurement for Market Dominant Products:**

- *Given that the Commission has been closely monitoring mail included and excluded in measurement for several fiscal years, the Commission expects that the Postal Service shall file the information responsive to CHIR No. 3, question 11 and CHIR No. 16, question 1 in table form, including detailed descriptions for data that are not available or not applicable, for FY 2023 along with the FY 2023 ACR.*

**First-Class Mail Service Performance:**

- *The following First-Class Mail products/categories did not achieve their service performance targets in FY 2022: 3-5-Day Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Single-Piece Outbound International. Considering this, the Commission finds Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Single-Piece Outbound International were each out of compliance in FY 2022. Specifically for Single-Piece Letters/Postcards, the Commission notes that the 2-Day service standard category did exceed its target whereas the 3-5-Day service standard category did not achieve its target in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these First-Class Mail products in FY 2023.*
- *The Commission directs the Postal Service to provide information on the following five matters. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service should file a motion for clarification in Docket No. ACR2022, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2023 versus FY 2022 and shall propose a method for comparing the data.*

(a) FY 2022 Nationwide Transit and Last Mile Improvement Initiatives

*First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2023 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.*

- 3. The transit evaluation shall explain how the progress made in FY 2023 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2023. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*
- 4. The Last Mile evaluation shall explain how the progress made in FY 2023 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2023. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023. Because the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,<sup>2</sup> the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated evaluation and plan shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

(b) FY 2022 Division Improvement Initiatives

*Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement*

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<sup>2</sup> See, e.g., Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, question 22, January 11, 2019.

*initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.*

- 3. For each Division, the Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2023. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023.*
- 4. For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*Because the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level.<sup>3</sup> However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report from each Division shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

### (c) Consistent Data

*Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the following data, described in items 1 and 2. Data shall be provided for FY 2023 Quarter 1, Quarter 2, and "mid-year"<sup>4</sup> within 90 days of the issuance of this ACD (by June 27, 2023). Data shall be provided for FY 2023 Quarter 3, Quarter 4, "second-half"<sup>5</sup> and annualized for the fiscal year, in the FY 2023 ACR (by December*

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<sup>3</sup> See generally FY 2022 Division Report; FY 2022 Division Report - Attachment A.

<sup>4</sup> Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2023.

<sup>5</sup> Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2023. Annualized refers to the aggregation of the data for all four quarters of FY 2023.

29, 2023). *The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.*

3. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.<sup>6</sup>*
4. *The number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.<sup>7</sup>*

(d) FY 2023 ISC Improvement Initiatives

*To monitor the Postal Service's initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.*

3. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2023.*
4. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

*The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2022. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An*

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<sup>6</sup> See, e.g., Library Reference USPS-FY22-NP30, December 29, 2022, Excel file "NONPUBLIC Air Capacity FY2022.xlsx."

<sup>7</sup> See, e.g., Library Reference USPS-FY22-29, Excel file "CLT FY22 11.30.2022.xlsx."

*updated report from each facility shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

### **USPS Marketing Mail Service Performance:**

- *Although on-time service performance scores increased for each USPS Marketing Mail product from FY 2021 to FY 2022, three products did not achieve their service performance targets in FY 2022: High Density and Saturation Flats/Parcels, Flats, and EDDM-R. Considering this, the Commission finds that High Density and Saturation Flats/Parcels, Flats, and EDDM-R were each out of compliance in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2023.*
- *To monitor the Postal Service's initiatives to remediate service performance issues with respect to these non-compliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide information concerning the following matters for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2023).*
- *The Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2023), and to provide specific detailed plans to improve these products' service performance, as described in items 1 and 2.*
  3. *The Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time results for these products by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for these products in FY 2023. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2023.*
  4. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

- *The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

### **Periodicals Service Performance:**

- *The Commission is encouraged that both Periodicals products met their on-time service performance targets in FY 2022 and notes that the Postal Service has raised these targets for FY 2023. However, the targets set by the Postal Service for Periodicals remain below targets set for other Market Dominant products in FY 2022 and FY 2023 as well as below historic targets set for both Periodicals products. With this in mind, and because both Periodicals products performed below target from FY 2009 through FY 2021, the Commission directs the Postal Service to provide, for Periodicals products that do not meet their targets in FY 2023, specific detailed plans to improve service performance as described in items 1 and 2.*
  3. *The Postal Service shall evaluate the efficacy of its FY 2023 initiatives to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2023. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2023 Quarter 1 to FY 2022 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2023.*
  4. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*
- *The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

**Package Services Service Performance:**

- *Although on-time service performance scores increased for each Package Services product from FY 2021 to FY 2022, two products did not achieve their service performance targets in FY 2022: BPM Flats and Media Mail/Library Mail. While the on-time performance result for BPM Flats increased from FY 2021 to FY 2022 by approximately 10 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2022 marks the eleventh consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2022 on-time performance result for Media Mail/Library Mail remains below target. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. Considering this, the Commission finds that BPM Flats and Media Mail/Library Mail were each out of compliance in FY 2022. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2023.*
- *To monitor the Postal Service's initiatives to remediate these ongoing issues related to these non-compliant products, the Commission directs the Postal Service to evaluate the efficacy of the Postal Service's FY 2023 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) to improve on-time service performance for BPM Flats and Media Mail/Library Mail. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats and Media Mail/Library Mail, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2023). An updated report shall be filed at the time of the FY 2023 ACR (by December 29, 2023).*

**Special Services Service Performance Targets:**

- *Two Special Services products did not achieve their service performance targets in FY 2022: Post Office Box Service and Ancillary Services in FY 2022. Considering this, the Commission finds that Post Office Box Service and Ancillary Services were out of compliance in FY 2022. The Commission directs the Postal Service to improve service*

*performance results to achieve the applicable on-time percent target level for these products in FY 2023.*

- *To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these non-compliant products, the Commission directs the Postal Service to provide the following information in the FY 2023 ACR for Post Office Box Service and Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2023 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2020, ACR2021, and ACR2022) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.*

#### **Customer Access:**

- *The Commission reiterates the importance of providing consistent information among the Annual Report, ACR, and CHIR responses. In the FY 2023 Annual Report and the FY 2023 ACR, the Postal Service must continue to report the number of retail facilities using data from the same system to ensure that information is accurate and consistent. If there are any discrepancies in the number of retail facilities or delivery points, the Postal Service must identify and reconcile them in the FY 2023 ACR instead of in CHIR responses.*

#### **Post Office Suspensions:**

- *In FY 2023, the Postal Service should strive to resolve the 79 suspended post offices remaining from the end of FY 2016. The Commission directs the Postal Service to continue filing quarterly reports on the status of these suspended post offices. The Postal Service must file this information within 40 days after the end of each quarter in FY 2023 and in FY 2024 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed in Docket No. ACR2021 on February 21, 2023.<sup>8</sup>*
- *Each quarterly report must reflect the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet.<sup>9</sup> If the Postal Service does not resolve the 79*

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<sup>8</sup> See Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 35, February 21, 2023, Excel file "acr2021\_chir35\_suspensiondata.xlsx."

<sup>9</sup> For example, the spreadsheet could highlight cells that differ from the prior report or describe any corrections in the Excel spreadsheet.

*remaining suspended post offices by the end of FY 2023, it must explain why in the FY 2023 ACR, as well as how it plans to resolve them in FY 2024. Also, the FY 2023 ACR must include a detailed plan and timeline for resolving post offices suspended from FY 2017 through FY 2023.*

**Collection Boxes:**

- *The Commission will continue to monitor the number of collection boxes in Docket No. ACR2023. In the FY 2023 ACR, the Postal Service must continue to report, at the national and area levels, information on the number of collection boxes at the beginning and end of FY 2023. The FY 2023 ACR must also include the number of collection boxes added to new locations and removed during FY 2023 as required by 39 C.F.R. § 3055.91(c)(3) and (4). If there are any discrepancies between the number of collection boxes at the beginning and end of FY 2023 and the number of collection boxes added and removed during FY 2023, the Postal Service must reconcile these discrepancies in the FY 2023 ACR.*
- *In FY 2023, the Commission recommends that the Postal Service continue conducting annual density testing of collection boxes consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2023 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.*

**Wait Time in Line:**

- *The Commission encourages the Postal Service to continue implementing strategies designed to improve wait time in line in FY 2023. In the FY 2023 ACR, the Postal Service must describe actions taken during FY 2023 to improve wait time in line and explain which actions were most and least effective in reducing wait time in line. If wait time in line worsens during FY 2023, the FY 2023 ACR should:*
  - *Explain why wait time in line increased and identify factors contributing to the increase*
  - *Describe plans for improving wait time in line during FY 2024 that include specific actions, strategies, and initiatives designed to address factors contributing to increased wait time in line, such as reduced employee availability*

**Alternative Access:**

- *The Commission recommends that the Postal Service continue to expand alternative access channels to ensure customers have continued access to essential postal services. If revenue from retail channels continues to decline across the board in FY 2023, the Postal Service must identify the root causes for these declines and describe plans to address them in the FY 2023 ACR.*

**Customer Satisfaction:**

- *In FY 2023, the Postal Service should continue to take appropriate actions to maintain Market Dominant product satisfaction for residential, small/medium business, and large business customers. In the FY 2023 ACR, for each customer type, the Postal Service must:*
  - *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2023 to improve customer satisfaction with Market Dominant products*
  - *Explain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction*
  - *Explain how these actions, plans, initiatives, and strategies impacted FY 2023 results*
- *If customer satisfaction with Market Dominant products declines for any customer type between FY 2022 and FY 2023, the FY 2023 ACR must explain why, as well as how the Postal Service will address these declines in FY 2024. When responding to these directives, the FY 2023 ACR must group explanations and descriptions by customer type (residential, small/medium business, and large business) or otherwise identify which explanations and descriptions apply to each customer type.*

# Appendix B: Initial and Reply Comments

## FY 2022 Annual Compliance Determination

Commenter	Full Form Comment Citation	Short Form Comment Citation
<b>Initial Comments</b>		
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association (ACMA) January 31, 2023	ACMA Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, January 31, 2023	PostCom Comments
Greeting Card Association (GCA)	Comments of the Greeting Card Association, January 31, 2023	GCA Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, January 31, 2023	NAPM Comments
National Postal Policy Council (NPPC)	Comments of the National Postal Policy Council, January 31, 2023	NPPC Comments
The News/Media Alliance (N/MA)	Comments of the N/MA – The News/Media Alliance, January 31, 2023	N/MA Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., January 31, 2023	Pitney Bowes Comments
Public Representative (PR)	Public Representative Comments, January 31, 2023	PR Comments
Taxpayers Protection Alliance (TPA)	TPA Comments for USPS FY 2022 ACR, January 31, 2023	TPA Comments
<b>Reply Comments</b>		
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 14, 2023	Postal Service Reply Comments

# Appendix C: Information Requests and Responses to Information Requests

## FY 2022 *Annual Compliance Determination*

Full Form Citation	Short Form Citation
<b>Chairman's Information Requests</b>	
Chairman's Information Request No. 1, January 3, 2023.	CHIR No. 1
Chairman's Information Request No. 2 and Notice of Filing Under Seal, January 6, 2023.	CHIR No. 2
Chairman's Information Request No. 3, January 10, 2023.	CHIR No. 3
Chairman's Information Request No. 4 and Notice of Filing Under Seal, January 13, 2023.	CHIR No. 4
Chairman's Information Request No. 5, January 18, 2023.	CHIR No. 5
Chairman's Information Request No. 6 and Notice of Filing Under Seal, January 20, 2023.	CHIR No. 6
Chairman's Information Request No. 7 and Notice of Filing Under Seal, January 27, 2023.	CHIR No. 7
Chairman's Information Request No. 8, January 30, 2023.	CHIR No. 8
Chairman's Information Request No. 9, February 1, 2023.	CHIR No. 9
Chairman's Information Request No. 10 and Notice of Filing Under Seal, February 3, 2023.	CHIR No. 10
Errata to Chairman's Information Request No. 10, February 6, 2023 (revising question 3 and correcting the numbering of the Customer Access questions in CHIR No. 10).	Revised CHIR No. 10
Chairman's Information Request No. 11 and Notice of Filing Under Seal, February 8, 2023.	CHIR No. 11
Chairman's Information Request No. 12, February 10, 2023.	CHIR No. 12

<b>Full Form Citation</b>	<b>Short Form Citation</b>
<b>Chairman's Information Requests, continued</b>	
Chairman's Information Request No. 16 and Notice of Filing Under Seal, March 2, 2023.	CHIR No. 16
Chairman's Information Request No. 21, March 21, 2023.	CHIR No. 21
Chairman's Information Request No. 22, March 28, 2023.	CHIR No. 22
<b>Full Form Citation</b>	<b>Short Form Citation</b>
<b>Response to Chairman's Information Request</b>	
Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 1, January 10, 2023.	Response to CHIR No. 1
Responses of the United States Postal Service to Questions 1-17 of Chairman's Information Request No. 2, January 13, 2023.	Response to CHIR No. 2
Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 3, January 17, 2023.	Response to CHIR No. 3
Responses of the United States Postal Service to Questions 1-28 of Chairman's Information Request No. 4, January 20, 2023.	Response to CHIR No. 4
Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 5, January 25, 2023.	Response to CHIR No. 5
Responses of the United States Postal Service to Questions 1-9 of Chairman's Information Request No. 6, January 27, 2023.	Response to CHIR No. 6
Responses of the United States Postal Service to Questions 1-30 of Chairman's Information Request No. 7, February 3, 2023.	Response to CHIR No. 7
Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 8, February 6, 2023.	Response to CHIR No. 8
Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 9, February 8, 2023.	Response to CHIR No. 9
Responses of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 10, February 10, 2023.	February 10 Response to CHIR No. 10

Full Form Citation	Short Form Citation
<b>Response to Chairman's Information Request, contnued</b>	
Motion for Extension of Time to Respond and for Partial Reconsideration of Question 9 of Chairman's Information Request No. 10, February 9, 2023.	Motion CHIR No. 10
Supplemental Response of the United States Postal Service to Question 9.b. of Chairman's Information Request No. 10, February 24, 2023.	February 24 Supplemental Response to CHIR No. 10
Second Supplemental Response of the United States Postal Service to Question 9.b of Chairman's Information Request No. 10, March 6, 2023.	March 6 Supplemental Response to CHIR No. 10
Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 11, February 15, 2023.	Response to CHIR No. 11
Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 12, February 17, 2023.	Response to CHIR No. 12
Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 14, March 3, 2023.	Response to CHIR No. 14
Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 16, March 9, 2023.	Response to CHIR No. 16
Responses of the United States Postal Service to Chairman's Information Request No. 21, March 27, 2023.	Response to CHIR No. 21
Responses of the United States Postal Service to Question 1 of Chairman's Information Request No. 22, March 28, 2023.	Response to CHIR No. 22
<b>Commission Information Request</b>	
Commission Information Request No. 1, January 25, 2023.	CIR No. 1
Commision Information Request No. 2, February 8, 2023.	CIR No. 2
<b>Response to Commission Information Request</b>	
Responses of the United States Postal Service to Questions 1-8 of Commission Information Request No. 1, February 1, 2023.	Response to CIR No. 1
Responses of the United States Postal Service to Questions 1-3 of Commission Information Request No. 2, February 15, 2023.	Response to CIR No. 2

## Appendix D: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	automated area distribution center
ACD	<i>Annual Compliance Determination</i>
ACMA	American Catalog Mailers Association
ACR	<i>Annual Compliance Report</i>
ADC	area distribution center
BPM	Bound Printed Matter
C.F.R.	Code of Federal Regulations
CET	critical entry time
CHIR	Chairman's Information Request
CIR	Commission Information Request
CLT	Critically Late Trip
CPI	consumer price index
CPI-U	consumer price index for all urban consumers
CPO	community Post Office
CPU	contract postal unit
CPUT	Contract Postal Unit Technology
CRA	Cost and Revenue Analysis
CRID	Customer Registration Identification
CSA	Customer Supplier Agreement
CX	Customer Experience
CY	Calendar Year
DDU	destination delivery unit
DFA	Delivering for America
DMU	Detached Mail Unit
DNDC	destination network distribution center
DPS	delivery point sequence
DSCF	destination sectional center facility
ECP	Efficient Component Pricing
ECSI	educational, cultural, scientific, or informational (value)
EDDM	Every Door Direct Mail
EDDM-R	Every Door Direct Mail—Retail
FAST	Facility Access and Shipment Tracking
FPO	foreign postal operator
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association

Acronym/Abbreviation	Meaning
GEPS—NPR	Global Expedited Package Services—Non-Published Rates
HCR	Highway Contract Route
HD	High Density
HDSF	High Density and Saturation Flats/Parcels
HDSL	High Density and Saturation Letters
HD+	High Density Plus
ICRA	International Cost and Revenue Analysis
IMb	Intelligent Mail barcode
IMF	International Monetary Fund
IMTS—Inbound	International Money Transfer Service—Inbound
IMTS—Outbound	International Money Transfer Service—Outbound
Internal SPM	Internal Service Performance Measurement System
IOCS	In-Office Cost System
IAA	Interagency agreement
IPA	International Priority Airmail
IPPS	irregular parcels and pieces
ISAL	International Surface Air Lift
ISC	International Service Center
KPI	key performance indicator
MCS	Mail Classification Schedule
Mixed ADC	mixed area distribution center
MMA	Major Mailers Association
MMP	Managed Mail Program
N/MA	N/MA – The News Media Alliance
NAPM	National Association of Presort Mailers
NDC	network distribution center
NPPC	National Postal Policy Council
NSA	negotiated service agreement
OIG	Office of Inspector General
OPP	Operating Plan Precision
P&DC	processing and distribution center
P&DC/F	processing and distribution center/facility
PAEA	Postal Accountability and Enhancement Act
Pitney Bowes	Pitney Bowes Inc.
PO Boxes	Post Office Boxes
POM	Postal Operations Manual
PostCom	Association for Postal Commerce
PR	Public Representative
Priority Mail—NPR	Priority Mail—Non-Published Rates

Acronym/Abbreviation	Meaning
PSAs	Package Support Annexes
PSRA	Postal Service Reform Act of 2022
PTR	Product Tracking and Reporting
RHB	retiree health benefit
SCF	sectional center facility
SDR	Special Drawing Right
SPM	service performance measurement
SSKs	Self-Service Kiosks
SSOP	site-specific operating plan
STT	Silver Track Training
TPA	Taxpayers Protection Alliance
U.S.C.	United States Code
UPS	United Parcel Service, Inc.
UPU	Universal Postal Union
VPO	Village Post Office

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