

Postal Regulatory Commission  
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# ANNUAL REPORT

to the President  
and Congress



FISCAL YEAR 2020

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## ACRONYMS

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

# PRC | Mission, Vision, and Guiding Principles



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## MISSION STATEMENT

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

## VISION STATEMENT

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

We will look to achieve our vision by:

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

## GUIDING PRINCIPLES

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

### Openness

- Public participation

### Integrity

- Fairness and impartiality
- Timely and rigorous analysis

### Merit

- Commitment to excellence
- Collegiality and multi-disciplinary approaches

### Adaptability

- Proactive response to the rapidly changing postal environment



# Chairman's Letter

JANUARY 2021



On behalf of the Postal Regulatory Commission, I am pleased to present our *Annual Report to the President and Congress*. This report details the key activities over the past year in the Commission's area of regulatory oversight. It includes information required under the Postal Accountability and Enhancement Act of 2006 (PAEA) on the operations of the Commission, including the extent to which regulations are achieving the objectives outlined in the PAEA, and an annual estimate of the cost of the Universal Service Obligation (USO) and the value of the postal monopoly.

In Fiscal Year 2020, the Commission commemorated its 50th anniversary as the Nation's Postal Service regulator. For half a century, the Commission has provided legal and economic oversight of the one agency that touches the lives of all Americans in every community nearly every day, at their homes and offices. Ever since Congress and President Nixon created it on August 12, 1970, the Commission has consistently conducted its work in an open and accessible way, with full transparency and an opportunity for robust input by the public. The agency's operations on behalf of its fellow citizens foster a vital and efficient universal mail system.

Despite the devastation of the COVID-19 pandemic that has disrupted agency and business operations across the country since March, the Commission fully maintained the high quality, exceptional level of work that is essential to the success of the U.S. Postal Service and its customers. In fact, 100 percent of the agency's professionals utilized the Commission's enhanced technological capabilities to ensure the Commission's critical work continued without disruption.

For example, the Commission completed its review of one of its most important dockets in decades — evaluation of the current system for regulating rates and classes for Market Dominant products — a PAEA mandate that requires the Commission to determine whether the law's objectives are being achieved. If the Commission finds that the objectives are not being met, it has the authority to either propose rules that modify the system or adopt an alternative system to achieve the objectives. After a rigorous review period that extended past FY 2020 and included an advanced Notice of Proposed Rulemaking (NPR), a NPR, and a revised NPR, as well as several opportunities for the public and stakeholders to provide comments, the Commission issued its final rulemaking on November 30, 2020, adopting rules to modify the system for regulating rates and classes for Market Dominant products.

While the Commission has issued its final rule modifying the ratemaking system for Market Dominant products; unfortunately, the impact of the COVID-19 pandemic has further exacerbated the Postal Service's financial condition. The Commission is aware that there is still much work to be done to place the country's postal system on sound footing and has already begun the development of its third report under section 701 of the PAEA. Every five years, the Commission is required to issue a report to Congress and the President that reflects the Commission's assessment of how well the PAEA is operating and is an opportunity to recommend legislation or other measures necessary to improve the effectiveness and efficiency of our Nation's postal laws.

As the Commission was preparing this Annual Report for publication in January 2021, President Joseph R. Biden, Jr. designated me to serve as chairman of the Commission. The text of this document reflects the work of the Commission throughout FY 2020, and includes some undertakings completed after the end of the fiscal year. Commissioner Robert G. Taub served as chairman throughout that period, and we appreciate his leadership in that role. I am grateful for the opportunity to help the Commission build on its progress in 2021.

On behalf of my fellow commissioners and the entire hard-working agency staff, I extend a welcome to the new Congress and Administration. The Commission stands ready to begin a productive dialogue with each of you on how to ensure the integrity of a universal mail system for years to come.

Respectfully,

A handwritten signature in black ink that reads "Michael Kubayanda". The signature is written in a cursive, flowing style.

Michael M. Kubayanda

CHAIRMAN

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## CHAPTER I | Fiscal Year 2020 in Review

*Despite the challenges of Fiscal Year (FY) 2020, the Postal Regulatory Commission has continued to produce quality work that supports its mission to ensure transparency and accountability of Postal Service operations and foster a vital and efficient universal mail system. The Commission's work culminated in its completion of the statutorily mandated review of the system for regulating rates and classes for Market Dominant products. The Commission issued final rules adopting changes to the regulations governing the Market Dominant rate system that were targeted to address areas where the ratemaking system had failed to achieve the objectives set forth in 39 U.S.C. § 3622(b). Among other changes, the final rules:*

- Modified the existing price cap to provide additional Market Dominant rate adjustment authority to permit the Postal Service to generate additional revenue to cover two costs outside of its control: retirement amortization payments and consequences of mail density declines
- Provided additional rate authority for non-compensatory mail classes of 2 percentage points per class per fiscal year that the Postal Service may use at its discretion
- Prohibited the Postal Service from reducing rates for non-compensatory products and required product-level rate increases for each non-compensatory product in a compensatory mail class by a minimum of 2 percentage points above the percentage increase for the class
- Implemented new requirements for workshare discounts to phase out two practices impeding pricing efficiency: workshare discounts that are set either substantially above or substantially below avoided costs
- Adopted additional reporting requirements to provide more transparency regarding operational efficiency and maintaining high-quality service standards, as well as facilitate the tracking of costs and monitoring of the Postal Service's efforts to reduce costs



In addition, the Commission achieved the following significant accomplishments:

1. The Commission addressed longstanding issues regarding Inbound Letter Post, which had not covered the Postal Service's costs since the Commission first analyzed volumes, costs, and revenues of the Postal Service's international products in a 1999 report to Congress.<sup>1</sup> The Commission reviewed and approved the Postal Service's request to create a new product by transferring certain Inbound Letter Post mail from the Market Dominant to the Competitive product list, as well as the Postal Service's proposed self-declared rates for the new product.
2. The Commission won an appeal filed with the Court of Appeals for the District of Columbia Circuit regarding the disclosure of data and analysis related to Inbound Letter Post.

3. The Commission reviewed and approved the Postal Service's proposed rate changes for Market Dominant and Competitive products. Major cases include:
  - Rate adjustments for each Market Dominant mail class (First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services)
  - Rate adjustments for several domestic and international Competitive mail products
  - Approval of rates for 267 Competitive negotiated service agreements (NSAs) between the Postal Service and mailers (210 domestic and 57 international)<sup>2</sup>
4. The Commission published four primary reports in FY 2020:
  - *Annual Report to the President and Congress* (Annual Report), describing the Commission's operations, accomplishments, and activities in FY 2019 as the regulator of the Postal Service
  - *Annual Compliance Determination* (ACD) FY 2019, reviewing the Postal Service's compliance with statutory pricing and service requirements
  - *Analysis of Postal Service Financial Results and 10-K Statement for the Fiscal Year 2019*, providing an in-depth analysis of the Postal Service's financial health
  - *Analysis of Postal Service FY 2019 Performance Report and FY 2020 Performance Plan*, evaluating whether the Postal Service met its performance goals
5. The Commission presided over several other notable rulemaking proceedings in FY 2020. The Commission:
  - Adopted revised rules of practice and procedure to reorganize the Commission's regulations and make them more accessible to the public
  - Issued an ANPR seeking information from the public regarding what regulations the Commission may need to promulgate to carry out the requirements of 39 U.S.C. § 601, which relates to the letter monopoly. The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence, with some exceptions
  - Adopted final rules revising procedural rules related to the issuance of Commission views on certain international mail matters pursuant to 39 U.S.C. § 407(c)(1)
6. The Commission explored important issues in three public inquiry dockets related to service performance, the value of the postal and mailbox monopolies, and city carrier costs.
7. The Commission also accomplished the following:
  - Considered 16 proposals to change various accepted analytical principles
  - Adjudicated two complaint cases, two market tests, and one post office closing appeal
  - Processed more than 6,400 inquiries, questions, suggestions, and comments from the general public primarily involving undelivered, delayed, misdelivered, and missing mail
  - Opened and reviewed 570 new dockets—an almost 25 percent increase over last year's total—and processed 3691 documents
  - Significantly enhanced technology capabilities allowing Commission staff to seamlessly adapt to a full-time telework environment while increasing cybersecurity and maintaining a productive work environment



PHOTO COURTESY USPS

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

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

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

## Commission Leadership



**Robert G. Taub** | CHAIRMAN

President Barack H. Obama designated Chairman Robert G. Taub as agency head on December 4, 2014. President Obama appointed him to both terms on the Commission following unanimous confirmations by the United States Senate in 2011 and 2016. His current term expires on October 14, 2022. Chairman Taub has 40 years of experience in public service at the local, state, and federal levels. When President Obama first appointed him as a commissioner in October 2011, Chairman Taub was the special assistant to Secretary of the Army John M. McHugh. As an Army senior executive, he was one of the principal civilian advisors to Secretary McHugh, helping him lead a workforce of more than 1.2 million people, and manage an annual budget exceeding \$200 billion. Chairman Taub was awarded the Army's Decoration for Distinguished Civilian Service. Before his appointment to the Army, Mr. Taub served as chief of staff to U.S. Representative John M. McHugh (R-NY) for the preceding decade. As chief of staff, he oversaw the day-to-day operations of Representative McHugh's staff and offices in Washington, D.C. and Northern New York State. In a variety of leadership roles on the U.S. House Oversight & Government Reform Committee for 12 years, Mr. Taub also worked closely with Congressman McHugh on matters relating to the nation's postal and delivery sector. He crafted Representative McHugh's legislation for modernizing America's postal laws for the first time since 1970, culminating in passage of the Postal Accountability and Enhancement Act in 2006. Mr. Taub also helped Representative McHugh conduct hearings and investigations into postal operations that ultimately led to the enactment of a dozen other postal laws.



**Michael M. Kubayanda** | VICE CHAIRMAN

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



## Mark Acton | COMMISSIONER

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



## Ann C. Fisher | COMMISSIONER

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



## Ashley E. Poling | COMMISSIONER

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

# Staff and Office Structure

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

The Commission is organized into four operating offices:

- **Accountability and Compliance.** The Office of Accountability and Compliance is responsible for technical analysis and formulating policy recommendations for the Commission on domestic and international matters
- **General Counsel.** The Office of the General Counsel ensures the Commission fulfills its statutory and regulatory obligations by providing legal guidance on matters involving the Commission’s responsibilities
- **Public Affairs and Government Relations.** The Office of Public Affairs and Government Relations facilitates prompt and responsive

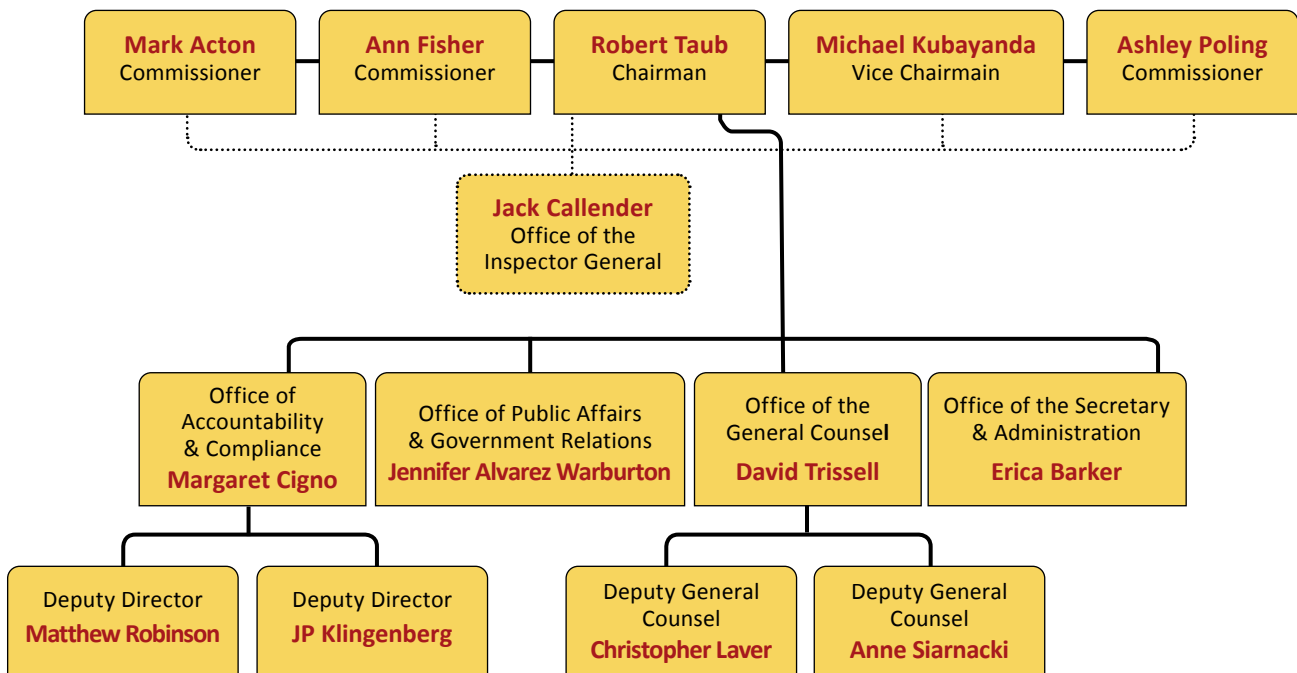
communications with the public, Congress, Federal agencies, the Postal Service, and the media

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

The Commission maintains an independent Office of the Inspector General. It conducts, supervises, and coordinates audits and investigations relating to Commission programs and operations, and identifies and reports fraud and abuse in these programs and operations.

Figure II-1 displays the Commission’s FY 2020 organizational structure.

**Figure II-1: Organizational Structure**



# Commission Strategic Plan

The Commission's FY 2017-2022 *Strategic Plan* is the framework which guides the work of the Commission and is a fundamental beacon for the Commission's efforts toward continuous improvement, efficiency, and effectiveness. The *Plan* outlines the agency's vision to promote a robust universal mail system through objective, accurate, and timely regulatory analyses and decisions.

The Commission focuses its activities on the following four Strategic Goals:

**Goal 1:** Deliver accurate and objective analyses and decisions to ensure transparency and accountability of the Postal Service

**Goal 2:** Actively engage with Congress and stakeholders in support of a dynamic postal system

**Goal 3:** Provide an optimal internal infrastructure to support management of priorities, workload, and emerging requirements

**Goal 4:** Recruit, develop, and retain a diverse, high-performing workforce

The Commission regularly tracks individual department and agency progress in meeting the four goals. This *Plan* also steers our commitment of Commission resources, ensuring we utilize our small budget and personnel complement to achieve our Strategic Goals.

To assist in measuring the effectiveness of its *Strategic Plan* efforts, the Commission participates annually in the Federal Employee Viewpoint Survey (FEVS). Although the agency's FY 2020 results have been delayed due to the impact of the COVID-19 pandemic, the agency's FY 2019 response rate of 76 percent was higher than the government-wide average response rate of 43 percent. In addition to response rate, one prime indicator of agency success provided by the FEVS is the Employee Engagement Index, which ranks employees' perceptions of the leadership within their agency, their supervisors, and the overall work experience. The Commission's Employee Engagement Index —

78 percent — continues to be among the higher ratings across the government, and provides an assessment of where agencies fall within each index: HCAAF, Employee Engagement, Global Satisfaction, and the New IQ.

Compared to peers across the Federal government, Commission staff had a higher degree of satisfaction with their work and office environment: 78 percent versus the government-wide rating of 68 percent. The Commission uses FEVs to develop actionable plans to address issues raised in confidential feedback from employees.

Throughout FY 2020, Chairman Taub met with office heads to review progress, accomplishments, and challenges related to each Strategic Goal and performance metric.

Key discussion points included the following:

- Ongoing prioritization of workload
- Ongoing updates on the Commission's 10-year rulemaking docket, including assessment of adequate resources to support efforts
- Development of media, congressional, and public outreach plans for key Commission notices
- Review of Commission responses to congressional inquiries
- Progress updates regarding efforts to increase cybersecurity for IT systems
- Commission efforts and initiatives to meet Equal Employment Opportunity target employee recruitment goals
- Timeliness of Commission response to service-related consumer inquiries
- Ongoing efforts between Commission and Postal Service staff to streamline the filing process for documents and reports and ensure the timeliness of Postal Service reporting
- Proposal to revise the Commission's Practice and Procedure rules to simplify access and participation in Commission rulemakings

Robust discussion regarding Commission employee responses to certain FEVS questions specifically linked to the *Strategic Plan*. Noteworthy positive or negative changes in employee feedback were carefully assessed by the Chairman and senior management

- Continued efforts to develop an improved records and docket management capability, including a modernized docketing system
- Proposed schedule for development of updated Commission Human Capital Plan
- Joint department collaboration in handling of FOIA requests, internal policy development, Commission ethics program, employment, and hiring matters

Through these focused discussions, the Commission made significant progress in achieving the goals set forth in its *Strategic Plan* over the course of the year. The Commission applies its *Strategic Plan* to prioritize and enhance the effectiveness of operations by aligning its limited resources to accomplish its mission and meet its statutory responsibilities and stated Strategic Goals.

Strategic Goal 1 focuses on delivering accurate and objective analyses and decisions to ensure compliance, transparency, and accountability of the Postal Service. These principles are the bedrock of the Commission's work, and it conducts thorough and accurate analysis of Postal Service reporting in order to ensure that the Postal Service is compliant with the law and is held accountable for non-compliance. In addition to its extensive regulatory work as detailed in Chapter III, the Commission's major accomplishment under Strategic Goal 1 includes the publication of final rules adopting changes to the regulations governing the Market Dominant Rate System. The Commission's Strategic Objective 1.3 tasked the Commission to "[r]esponsibly, transparently, and efficiently lead the review of the existing statutory system for regulating rates and classes for Market Dominant products, as well as consider and, if necessary, implement modifications or an

alternative system." In satisfaction of Objective 1.3, the Commission concluded its extensive statutory review of the Market Dominant Rate System and published final rules setting forth regulatory changes targeted to address identified deficiencies of the ratemaking system.

Strategic Goal 2 focuses on active engagement with Congress and stakeholders in support of a dynamic postal system. The Commission accomplishes this goal by clearly communicating complex analyses and decisions to address the needs of diverse stakeholders. As set forth in Chapter V, the Commission's Office of Public Affairs and Government Relations (PAGR) assists the public by handling thousands of consumer comments and inquiries related to a host of postal issues. In addition to this work, due to the impact of the COVID-19 pandemic on Postal Service operations, PAGR also conducted increased communication and active engagement regarding the postal system with the U.S. Congress, the Administration, the Postal Service, other government agencies, and the media.

Strategic Goal 3 focuses on providing an optimal internal infrastructure, including IT infrastructure, administrative infrastructure, and physical infrastructure, to support management of priorities, workload, and emerging requirements. The Commission is able to fulfill its mission and provide effective oversight of the Postal Service when it operates in an efficient, responsive, and transparent matter. In accordance with Strategic Goal 3, the Commission improved its IT infrastructure to support its staff while in a maximum telework status due to the COVID-19 pandemic, including procuring more secure government equipment to replace the use of personal equipment for accessing Commission networks. The Commission's focus on security included hiring its first cybersecurity manager and conducting a security assessment. By focusing a portion of its limited resources on infrastructure needs under this goal, the Commission was able to seamlessly transition its staff to maximum telework and



support its achievement of Strategic Goals 1 and 2 to ensure the continuity of the Commission’s mission in light of a global pandemic.

Strategic Goal 4 is a cross-cutting goal that focuses on the recruitment, development, and retention of a diverse, high-performing workforce. As payroll is 80 percent of the Commission’s budget, this heightens the significance which the Commission attaches to this goal. Loss of experienced and trained staff is a risk area and threatens the work of the Commission given the unique postal expertise required to carry out its mission. In the past fiscal year, the Commission virtually hired and onboarded eight full-time employees to fill mission-critical vacancies. Four of these new employees work in the Office of Accountability and Compliance and Office of the General Counsel which separately supports Strategic Goal 1.

The Commission’s largest challenge in fully achieving its *Strategic Plan* goals remains its lack of sufficient funds. As the regulator of the Postal Service, the Commission needs the ability to remain flexible and nimble to adjust its operations to match the regulatory oversight requirements of the Postal Service in the fast-paced and evolving delivery sector. Given the nature of the Commission’s work, responding to changes in the postal sector environment, while ensuring its statutorily-mandated responsibilities are conducted in an efficient and effective manner, even small cuts to the Commission’s budget significantly impact its ability to meet its Strategic Goals. Despite these budgetary challenges, the Commission was able to efficiently and effectively make significant progress in achieving its Strategic Goals and saw major accomplishments related to each Strategic Goal in 2020.

The Commission’s *Strategic Plan*, in its entirety, can be viewed or downloaded at [www.prc.gov](http://www.prc.gov).



PHOTO COURTESY USPS

## CHAPTER III | FY 2020 Proceedings



*The Postal Accountability and Enhancement Act (PAEA)<sup>3</sup> requires the Commission to submit an Annual Report to the President and the Congress (Annual Report) that includes an analysis “concerning the operations of the Commission under [title 39], including the extent to which regulations are achieving the objectives under sections 3622 and 3633” of title 39 of the United States Code (U.S.C.).<sup>4</sup> These sections contain laws related to Market Dominant and Competitive products, respectively. Postal Service products are characterized as either Market Dominant or Competitive.<sup>5</sup> Market Dominant products are those products over which the Postal Service “exercises sufficient market power that it can effectively set the price[s] of such product[s] substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.”<sup>6</sup> Competitive products consist of all other products.<sup>7</sup>*

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

1. Maximize incentives to reduce costs and increase efficiency
2. Create predictability and stability in rates
3. Maintain high quality service standards established under 39 U.S.C. § 3691
4. Allow the Postal Service pricing flexibility
5. Assure adequate revenues, including retained earnings, to maintain financial stability

6. Reduce the administrative burden and increase the transparency of the ratemaking process
7. Enhance mail security and deter terrorism
8. Establish and maintain a just and reasonable schedule for rates and classifications without prohibiting the Postal Service from making changes of unequal magnitude within, between, or among classes of mail
9. Allocate the total institutional costs of the Postal Service appropriately between Market Dominant and Competitive products<sup>8</sup>

The Commission established regulations governing the Market Dominant Rate System in 2007 shortly after the PAEA was enacted.<sup>9</sup> In FY 2017, the Commission began its review of

the Market Dominant Rate System to determine if it was achieving the objectives established by Congress in 39 U.S.C. § 3622(b), taking into account the factors of 39 U.S.C. § 3622(c). The Commission’s review is discussed below under the “Statutory Review of Market Dominant Rate System” section.

The Annual Report must also analyze the extent to which regulations are achieving the objectives under 39 U.S.C. § 3633 relating to Competitive products.<sup>10</sup> The Commission’s regulations in 39 C.F.R. part 3035 support the requirements of section 3633, which are discussed below under the “Rate Adjustments — Competitive Products” section. This chapter also describes the Commission’s major orders, reports, and proceedings during FY 2020.

## Rulemakings Amending Commission Regulations

### Statutory Review of Market Dominant Rate System

When enacting the PAEA, Congress intended that the Market Dominant Rate System achieve the nine objectives in 39 U.S.C. § 3622(b). Congress also required that the Commission review the Market Dominant Rate System 10 years after the PAEA was enacted “to determine if the system is achieving the objectives in [39 U.S.C. § 3622] (b), taking into account the factors in [39 U.S.C. § 3622] (c).”<sup>11</sup> In accordance with this statutory mandate, the Commission established Docket No. RM2017-3 and issued an Advanced Notice of Proposed Rulemaking (ANPR) to establish a framework for its review and provide notice and an opportunity for public comments.<sup>12</sup> On December 1, 2017, the Commission issued Order No. 4257 containing its findings and determination of its review of the Market Dominant Rate System.<sup>13</sup>

In Order No. 4257, the Commission identified three principal areas of the Market Dominant Rate System that encapsulate the nine objectives: (1) the structure of the ratemaking system, (2) the Postal Service’s financial health, and (3) service.<sup>14</sup> The Commission evaluated each principal area to determine

whether the PAEA’s goals were achieved during the PAEA era.<sup>15</sup> The Commission found that while the system achieved some of the goals of these principal areas, the overall system had not achieved the objectives taking into account the factors of the PAEA.<sup>16</sup>

In its review of the structure of the Market Dominant Rate System, the Commission found that with respect to pricing, the system did not result in increased pricing efficiency.<sup>17</sup> In its analysis of the financial health of the Postal Service, the Commission determined that “financial stability, including retained earnings, has not been maintained for the Postal Service in the medium and long-term time frames and that cost reductions and operational efficiency gains have not been maximized.”<sup>18</sup> The Commission also found that “the system did not maintain reasonable rates because products and classes threatened the financial integrity of the Postal Service by failing to cover their attributable costs.”<sup>19</sup> In its review of service, the Commission determined that the system did not effectively encourage the maintenance of high quality service standards.<sup>20</sup>

In accordance with 39 U.S.C. § 3622(d)(3), if the Commission determines that the Market Dominant Rate System has not achieved the objectives, taking into account the factors, of the PAEA, the Commission may, by regulation, make modifications or adopt an alternative system as necessary to achieve the objectives. As a result of its findings and determination in Order No. 4257, the Commission concurrently issued a Notice of Proposed Rulemaking (NPR) that included proposed changes to the Market Dominant Rate System.<sup>21</sup>

The NPR proposed changes designed to address key issues with the Market Dominant Rate System by providing the Postal Service additional pricing authority that complemented rather than replaced the price cap.<sup>22</sup> The proposed rules provided the Postal Service supplemental rate authority to generate additional revenue through an additional 2 percentage points of rate authority per class of mail per calendar year, as well as additional performance-based rate authority upon the Postal Service meeting standards related to operational efficiency and service standards.<sup>23</sup> The rules also expanded pricing authority for non-compensatory classes and prohibited reducing rates for non-compensatory products.<sup>24</sup> To increase pricing efficiency, the proposed rules established bands—ranges with upper and lower limits—for workshare discount passthroughs.<sup>25</sup> The NPR also proposed other changes to the rate adjustment process that increased visibility into planned rate adjustments.<sup>26</sup>

On December 5, 2019, the Commission issued a revised NPR to reflect comments received on the initial NPR.<sup>27</sup> The revised rules were aimed at improving and strengthening the initial proposal.<sup>28</sup> After considering comments received on the revised NPR, the Commission issued final rules adopting changes to the regulations governing the Market Dominant Rate System.<sup>29</sup> The final rules set forth regulatory changes targeted to address the identified areas where the ratemaking system has failed to achieve the objectives set forth in 39 U.S.C. § 3622(b).

To address obstacles to the Postal Service's ability to maintain financial health and target primary drivers of net losses, the final rules implement two mechanisms designed to provide additional revenue for costs outside the Postal Service's control. The first mechanism, designed to address consequences of mail density declines, modifies the existing price cap to provide additional Market Dominant rate adjustment authority equal to the density-driven portion of increases in average cost-per-piece, as calculated under the Commission's formula.<sup>30</sup> The second mechanism, designed to address the Postal Service's retirement amortization payments, modifies the existing price cap to provide additional Market Dominant rate adjustment authority equal to the percentage by which total revenue (for both Market Dominant and Competitive products) would need to increase to provide sufficient revenue for the Postal Service to meet its required retirement obligation payments, as calculated under the Commission's formula.<sup>31</sup> The retirement-based rate adjustment authority will be phased in over 5 years.<sup>32</sup>

The final rules withdraw the performance-based rate authority proposed in the initial and revised NPRs in response to commenter concerns.<sup>33</sup> The Commission intends to open a separate rulemaking to further study potential modifications to the ratemaking system that link financial incentives and/or consequences to efficiency gains, cost reductions, and the maintenance of service standards.<sup>34</sup> For purposes of transparency, the final rules adopt two of the proposed reporting requirements related to the proposed performance-based rate authority.<sup>35</sup>

The Commission adopts final rules relating to non-compensatory mail classes and products to address the failure of the Market Dominant Rate System to maintain reasonable rates and promote pricing efficiency. For non-compensatory mail classes, the final rules provide an additional rate authority of 2



percentage points per class and per fiscal year the Postal Service may use, with an aim to narrow the cost coverage gap of those classes over time.<sup>36</sup> This additional rate authority is optional.<sup>37</sup> For non-compensatory products, the Postal Service is restricted from reducing rates for those products and will be required to enact product-level rate increases for each non-compensatory product in a compensatory class by a minimum of 2 percentage points above the percentage increase for the class.<sup>38</sup> These restrictions are designed to stop the trend of declining cost coverage for these products and move cost coverage toward 100 percent.<sup>39</sup>

To improve pricing efficiency, the final rules regarding workshare discounts are intended to phase out two practices impeding pricing efficiency: workshare discounts that are set either substantially below avoided costs or substantially above avoided costs.<sup>40</sup> The Postal Service is prohibited from changing

workshare discounts set equal to avoided costs; reducing workshare discounts set below avoided costs; and increasing workshare discounts set above avoided costs.<sup>41</sup> The Postal Service may propose to set a workshare discount below or above avoided costs only under certain circumstances.<sup>42</sup> The Postal Service may also request a waiver in advance of a rate adjustment filing that, if granted by the Commission, would exempt a workshare discount from some of the requirements.<sup>43</sup>

The final rules also include reporting requirements intended to facilitate the tracking of costs and monitoring of the Postal Service's efforts to reduce costs.<sup>44</sup> They require the Postal Service to provide information consisting of three separate components: (1) a consolidated cost analysis; (2) detailed information regarding planned and active large-scale cost-reduction initiatives; and (3) summary information pertaining to approved Decision Analysis

Reports, which are internal Postal Service documents used to justify and obtain approval for certain proposed capital spending projects.<sup>45</sup>

To increase transparency and reduce administrative burden, the final rules implement procedural improvements to the ratemaking process related to planned rates of general applicability.<sup>46</sup> Among other changes, they require the Postal Service to update the schedule for regular and predictable rate adjustments annually and provide certain information designed to increase transparency for mailers regarding the Postal Service's planned rate changes.<sup>47</sup> They also extend the minimum

notice period for rate adjustment filings from 45 to 90 days and discontinue the Commission's practice of addressing the objectives and factors of 39 U.S.C. § 3622(b) and (c) in individual rate adjustment proceedings.<sup>48</sup>

Finally, the final rules provide for a holistic review of the effects of the Commission's rule changes after 5 years.<sup>49</sup> The Commission retains the flexibility to review and adjust certain components of the system sooner than 5 years if necessary.<sup>50</sup> Taken together, the modifications adopted in the final rules are designed to remedy the deficiencies in the existing Market Dominant Rate System identified in Order No. 4257.

## Revised Rules of Practice and Procedure

On September 13, 2019, the Commission issued an NPR to reorganize its regulations and to revise its rules of practice.<sup>51</sup> The proposed revisions were designed to make the Commission's regulations more user-friendly by organizing them under six new subchapter headings.<sup>52</sup> Proposed subchapter A contained rules describing the Commission and its offices as well as employee standards of conduct.<sup>53</sup> Proposed subchapter B described rules relating to the Privacy Act, public records and the Freedom of Information Act, and public attendance at Commission meetings.<sup>54</sup> Proposed subchapter C contained revised rules of practice applicable to all Commission proceedings.<sup>55</sup> It proposed generally applicable rules of practice and procedure for docketed matters before the Commission, rules governing non-public materials provided to the Commission, rules prohibiting certain ex parte communications, and procedures for compelling the Postal Service to provide information.<sup>56</sup>

Proposed subchapter C also established procedural frameworks for the two main types of Commission proceedings — notice and comment proceedings and proceedings with hearings on the record.<sup>57</sup> The separate framework for notice and comment proceedings, distinct from the framework for hearings on the record, was

established to eliminate confusion regarding the procedures that apply in notice and comment proceedings and to reflect the fact that, since the enactment of the PAEA in 2006, the Commission has conducted most of its proceedings through notice and comment.

The rules in proposed subchapter D provided additional procedures for specific types of Commission proceedings: Postal Service requests for changes in the nature of postal services, post office closing appeals, complaints, rate or service inquiries, complaints alleging violations of 39 U.S.C. § 404a, and procedures related to Commission views submitted to the Secretary of State.<sup>58</sup> Proposed subchapter E contained regulations governing Market Dominant and Competitive products, product lists, and market tests.<sup>59</sup> Proposed subchapter F contained rules for periodic reporting, service performance and customer satisfaction reporting, and accounting practices and tax rules for Competitive products.<sup>60</sup>

In response to comments received, the Commission adopted the proposed reorganization and revisions with limited modifications.<sup>61</sup> The revised rules became effective on April 20, 2020.<sup>62</sup>

## Rate Incentives for Market Dominant Products

On February 14, 2020, the Commission issued an NPR proposing amendments to the Commission’s regulations concerning rate incentives for Market Dominant products appearing in 39 C.F.R. part 3030.<sup>63</sup> When adjusting Market Dominant rates as part of a rate adjustment proceeding, the Commission’s rules permit the Postal Service to include rate incentives it plans to offer in the percentage change in rates calculation, as long as the rate incentives meet certain requirements.<sup>64</sup> One requirement is that rate incentives must be rates of general applicability, which means the rates are “applicable to all mail meeting standards established by the Mail Classification Schedule, the Domestic Mail Manual, and the International Mail Manual.”<sup>65</sup>

The Commission sought to clarify its rules by proposing three changes. First, the proposed rules would revise the regulation defining “rate of general applicability” for purposes of Market Dominant rate adjustment proceedings to clarify that rates of general applicability cannot be based on mailer-specific data such as historical mailer volume.<sup>66</sup> Second, the proposed rules would add an additional criterion for a rate incentive to be eligible for inclusion in a percentage change in rates calculation: the rate incentive must be made available to all mailers equally on the same terms and conditions.<sup>67</sup> Third, the proposed rules would require that notices of rate adjustment include specific information concerning Market Dominant rate incentives that the Postal Service wishes to have included in a percentage change in rates calculation.<sup>68</sup>

After considering comments received, the Commission issued Order No. 5510 adopting final rules regarding rate incentives for Market Dominant products on May 15, 2020.<sup>69</sup> On June 15, 2020, the Postal Service filed a petition for review appealing this order to the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit).<sup>70</sup> The Postal Service alleged that Order No. 5510 “relied on a new factual



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basis that was not revealed in its proposed rule, thereby failing to allow for meaningful and informed comment.”<sup>71</sup>

On August 26, 2020, the Commission issued a notice of intent to reconsider the final rules.<sup>72</sup> The Commission maintained that the proposed rules did provide adequate notice.<sup>73</sup> However, it deemed it prudent to allow the Postal Service to comment on any aspect of the proposed rules the Postal Service believed it did not have the opportunity to comment on previously.<sup>74</sup> The Commission stated it would reconsider its findings in light of any such comments.<sup>75</sup> To that end, the Commission stated that it intends to issue a new NPR and to reconsider Order No. 5510 to ensure that the Postal Service and all other interested persons have the

opportunity to comment fully on the proposed rules.<sup>76</sup> The Commission noted that it does not intend to enforce Order No. 5510 during the reconsideration period.<sup>77</sup>

## Letter Monopoly Exceptions

On February 27, 2020, the Commission issued an ANPR seeking information from the public about what regulations the Commission may need to promulgate to carry out the requirements of 39 U.S.C. § 601, which relates to the letter monopoly.<sup>79</sup> The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence, with some exceptions.<sup>80</sup> These exceptions are codified in 39 U.S.C. § 601, which specifies instances when

On September 11, 2020, the Postal Service and the Commission filed with the D.C. Circuit a joint motion to dismiss the Postal Service's petition for review and vacate Order No. 5510.<sup>78</sup>

letters are not subject to the letter monopoly.<sup>81</sup> 39 U.S.C. § 601(c) directs the Commission to promulgate "[a]ny regulations necessary to carry out [section 601] ..."<sup>82</sup> The Commission issued this ANPR to explore potential options for issuing these regulations and to identify issues that may be considered.<sup>83</sup> Two Chairman's Information Requests (CHIRs) were issued and 11 comments were received. The Commission is currently considering comments received.

## Procedures Related to Commission Views

On December 17, 2019, the Commission issued an NPR proposing revisions to its procedural rules related to the issuance of Commission views on certain international mail matters pursuant to 39 U.S.C. § 407(c)(1).<sup>84</sup> Under section 407(c)(1), before the Secretary of State concludes any treaty, convention, or amendment establishing a Market Dominant rate or classification, it must request the Commission's views "on whether such rate or classification is consistent with the standards and criteria established by the Commission under

[39 U.S.C. §] 3622."<sup>85</sup> Procedures for providing Commission views to the Secretary of State are codified in 39 C.F.R. part 3025. The NPR proposed minor improvements to these rules to increase transparency and accountability of the process for providing Commission views, as well as enhance the accessibility of relevant proposals, Commission views, and other related documents.<sup>86</sup> After considering comments received, which supported the proposed changes, the Commission adopted these revisions to 39 C.F.R. part 3025.<sup>87</sup>

## Updates to Product Lists

The Commission maintains product lists containing the names of the Market Dominant and Competitive products the Postal Service is currently offering. The PAEA and the Commission's rules require the Commission to update the product lists to reflect changes made, including adding new products, removing products, and transferring products between the Market Dominant and Competitive product

lists.<sup>88</sup> Updates to the product lists must be published in the *Federal Register*.<sup>89</sup>

On April 16, 2020, the Commission established Docket No. RM2020-8 as the docket where future Notices of Update to Product Lists will be posted.<sup>90</sup> These updates will also be published in the *Federal Register* as a direct final rulemaking that amends the Code of Federal Regulations (C.F.R.).<sup>91</sup> The product lists are published in



39 C.F.R. part 3040, subpart A, Appendix A (Market Dominant Products) and Appendix B (Competitive Products).

For each Notice of Update to Product Lists, the Commission will consider any adverse comments received related to each notice.<sup>92</sup> If no significant

adverse comments are received, the product list updates will become effective 30 days after the date they are published in the *Federal Register* without further action.<sup>93</sup> The product lists are updated quarterly in the *Federal Register* as well as on the Commission's website.<sup>94</sup>

## Amendments to Freedom of Information Act Rules

On September 27, 2019, the Commission issued a proposed direct final rule to transfer responsibility for processing requests under the Freedom of Information Act (FOIA), 5 U.S.C. § 552, *et seq.*, from its Office of Secretary & Administration to its Office of General Counsel.<sup>95</sup> The Commission based the proposal on its determination that these requests can

be processed most efficiently within the Office of General Counsel.<sup>96</sup> The Commission invited interested persons to comment on its proposal no later than 30 days from the date of its publication in the *Federal Register*.<sup>97</sup> Because no adverse comments were received, the proposed changes became effective on November 18, 2019.

## Annual Reports

Besides the Annual Report to Congress, the Commission issues three other reports each year that analyze information from the Postal Service's *Annual Compliance Report* (ACR). The ACR analyzes costs, revenues, rates, and quality of service for Market Dominant and Competitive products.<sup>98</sup> The ACR also includes information about mail volumes, service performance, and customer satisfaction for Market Dominant products, as well as information on workshare discounts and market tests.<sup>99</sup> The PAEA requires the Postal Service to prepare and submit the ACR to the Commission within 90 days after the fiscal year ends on September 30.<sup>100</sup>

Each year, the Commission analyzes the ACR and issues three related reports. The ACD assesses the Postal Service's compliance with statutory pricing and service requirements. The Financial Analysis Report analyzes the Postal Service's overall financial position. The Analysis of Postal Service Performance Goals and Performance Plan evaluates whether the Postal Service met its performance goals and makes related recommendations. In FY 2020, each report was issued in Docket No. ACR2019 and is described below.<sup>101</sup>

### *Annual Compliance Determination*

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

comply with applicable laws, and (2) the Postal Service met its service standards in effect during the fiscal year.<sup>102</sup> The Commission publishes its analysis of the ACR in the ACD.

The Commission issued the FY 2019 ACD on March 25, 2020 and made several principal findings and directives.<sup>103</sup> First, the Commission evaluated Market Dominant products for

compliance with three statutory pricing requirements: the price cap, workshare discounts, and preferred rates.<sup>104</sup> There were no issues with the price cap and preferred rates.<sup>105</sup> The Commission identified compliance issues with 12 workshare discounts and found that 1 workshare discount did not comply with 39 U.S.C. § 3622(e).<sup>106</sup> The Commission directed the Postal Service to either align this workshare discount with its avoided cost in the next Market Dominant rate adjustment or provide support for an applicable statutory exception.<sup>107</sup>

Second, the Commission identified eight non-compensatory Market Dominant products that did not generate sufficient revenue to cover their attributable costs in FY 2019: (1) Periodicals In-County, (2) Periodicals Outside County, (3) USPS Marketing Mail Flats, (4) USPS Marketing Mail Parcels, (5) USPS Marketing Mail Carrier Route, (6) Inbound Letter Post, (7) Media Mail/Library Mail, and (8) Stamp Fulfillment Services.<sup>108</sup> The

Commission issued findings, directives, and/or recommendations for each non-compensatory product. For Periodicals, the Commission found that the Postal Service's FY 2019 Periodicals Pricing Report meaningfully responded to the Commission's previous directive.<sup>109</sup> It directed the Postal Service to provide an updated version of the Periodicals Pricing Report in the FY 2020 ACR.<sup>110</sup>

The Commission found that USPS Marketing Mail Flats had its worst cost coverage since this product was introduced in FY 2007 and that the Postal Service had failed to improve its cost coverage or identify a timeline for phasing out the subsidy it receives.<sup>111</sup> The Commission directed the Postal Service to increase rates for both USPS Marketing Mail Flats and USPS Marketing Mail Parcels in the next Market Dominant rate adjustment by at least 2 percentage points above the class average.<sup>112</sup> The Commission strongly recommended that the Postal Service propose the same increase for USPS Marketing Mail Carrier Route.<sup>113</sup> If it elected not



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to, the Commission directed the Postal Service to provide an estimate of the impact of the proposed rate increases for this product on the contribution of the USPS Marketing Mail class and the USPS Marketing Mail Carrier Route product.<sup>114</sup>

For Inbound Letter Post, the Commission made several recommendations to the Postal Service: (1) negotiate agreements containing rates that are more compensatory than default terminal dues, (2) undertake focused initiatives to reduce costs without compromising service, and (3) work with the Department of State to propose compensatory terminal dues to the Universal Postal Union (UPU).<sup>115</sup> For Media Mail/Library Mail, the Commission found that the Postal Service's approach to improve cost coverage through above-average price increases was appropriate, but historically inadequate.<sup>116</sup> The Commission directed the Postal Service to submit a plan describing how it will increase the cost coverage of this product.<sup>117</sup> For Stamp Fulfillment Services, the Commission urged the Postal Service to improve cost coverage and explain its rationale if it proposed a below-average price increase in the next Market Dominant rate adjustment.<sup>118</sup>

Third, in the ACD, the Commission evaluated Competitive products for compliance with 39 U.S.C. § 3633(a) in FY 2019. The Commission found that Competitive products complied with sections 3633(a)(1) and (3) because Market Dominant products did not subsidize revenues for Competitive products, and Competitive products collectively covered an appropriate share of the Postal Service's institutional costs.<sup>119</sup> The Commission also determined that revenues for six Competitive products did not cover their attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2).<sup>120</sup> The Commission directed the Postal Service to take corrective action for these products, such as terminating or renegotiating non-compensatory agreements, reviewing rate and revenue discrepancies, and providing more transparency on costing issues.<sup>121</sup>

Fourth, the Commission evaluated service performance for each Market Dominant product

by comparing the percentage of mailpieces that achieve the stated service standard with targets set by the Postal Service.<sup>122</sup> The Commission found that most products failed to meet their annual service performance targets in FY 2019.<sup>123</sup> It noted that because the Postal Service began using a new internal service performance measurement (SPM) system in FY 2019, service performance results for FY 2019 are not directly comparable to results for previous fiscal years.<sup>124</sup> For First-Class Mail Single-Piece Letters/Postcards, the Commission determined that the Postal Service did not meet its service performance targets for this product, along with all other First-Class Mail products, for the fifth consecutive year.<sup>125</sup> However, the Commission also found that "[t]he Postal Service has made progress in developing a quantitative analysis linking its root cause assessments with the impact on service performance results for this product and other First-Class Mail and USPS Marketing Mail products."<sup>126</sup> It directed the Postal Service to continue reporting specific information developed from its First-Class Mail metrics and provide more transparency about the progress and effects of its existing strategies for improving multi-year national service performance.<sup>127</sup>

Fifth, the Commission examined flats cost and service issues by analyzing flats financial performance, flats service performance, and pinch points impacting flats operational performance.<sup>128</sup> It found that unit costs and contribution losses have continued to grow, and no flats product met their service performance target in FY 2019.<sup>129</sup> The Commission noted that annual reporting requirements for flats were implemented in FY 2019, which leveraged internal data the Postal Service collected to improve transparency and accountability.<sup>130</sup> The Commission made several recommendations to develop specific plans and goals to improve both cost issues and service performance for flats in FY 2020.<sup>131</sup>

## Financial Analysis

On May 7, 2020, the Commission issued its *Financial Analysis of the United States Postal Service Financial Results and 10-K Statement* for FY 2019.<sup>132</sup> The report provided comprehensive analysis of the Postal Service's financial status primarily using information reported in its FY 2019 Form 10-K, including comparisons with FY 2018 results and its FY 2019 Integrated Financial Plan (Financial Plan). The Commission's analysis concluded that the Postal Service remains on an unsustainable financial path.<sup>133</sup> It found that in FY 2019, the Postal Service's total net loss was \$8.8 billion, which was a decline of \$4.9 billion compared to FY 2018.<sup>134</sup> The net loss from operations of \$3.2 billion, an increase of 53 percent over FY 2018 due to higher operating expenses, represented a \$1.1 billion decline in profitability.<sup>135</sup> Net operating expenses were \$1.6 billion higher than in FY 2018, which were primarily driven by increases in compensation and benefits as well as transportation costs.<sup>136</sup> In FY 2019, 70.3 percent of the Postal Service's total costs consisted of compensation and benefits expenses, and workhours have continued to increase annually since FY 2015.<sup>137</sup>

The Commission found that the Postal Service has not had a profitable year in the last decade.<sup>138</sup> The Postal Service recorded a \$71.5 billion net deficit primarily caused by several years of net operating losses that started in FY 2007.<sup>139</sup> These continued losses have adversely affected the Postal Service's financial position, creating

## Analysis of Performance Goals

Each year, the Commission must evaluate whether the Postal Service met the performance goals established in the Postal Service's annual performance report and performance plan.<sup>151</sup> The Commission may also provide the Postal Service with recommendations related to protecting or promoting public policy objectives in title 39.<sup>152</sup>

On June 1, 2020, the Commission issued a detailed analysis of the Postal Service's progress

a substantial gap between the Postal Service's assets and liabilities.<sup>140</sup> The gap between current assets and current liabilities has increased significantly since FY 2010.<sup>141</sup> If current assets are not sufficient to meet short-term liabilities, the Postal Service could have issues paying its creditors in the short term.<sup>142</sup>

The Postal Service had \$8.8 billion in cash as of September 30, 2019.<sup>143</sup> This represented approximately 58 days of liquidity.<sup>144</sup> The Postal Service's cash reserves covered less than 2 months of cash and capital expenses excluding unpaid retirement plan expenses.<sup>145</sup> The Postal Service is largely a cash business with minimal trade receivables and payables (other than the employee related liabilities), which increases the importance of cash reserves to mitigate unforeseen risks.<sup>146</sup>

First-Class Mail, USPS Marketing Mail, and Shipping and Packages represented 93 percent of the revenue from mail and services.<sup>147</sup> Rate increases based on the price cap were not sufficient to offset revenue lost from the decline in Market Dominant mail volumes.<sup>148</sup> Total revenue from Market Dominant products decreased by 1.6 percent, and several Market Dominant products did not generate sufficient revenue to cover attributable costs.<sup>149</sup> Although the Postal Service's finances continued to benefit from parcel growth, Competitive products volume grew only 0.2 percent, which was much lower than the 11.0 percent growth in FY 2018.<sup>150</sup>

during FY 2019 toward its four performance goals: (1) High-Quality Service, (2) Excellent Customer Experiences, (3) Safe Workplace and Engaged Workforce, and (4) Financial Health.<sup>153</sup>

In its analysis, the Commission evaluated whether the FY 2020 Annual Performance Plan (FY 2020 Plan) and FY 2019 Annual Performance Report (FY 2019 Report) complied with 39 U.S.C. §§ 2803 and 2804.<sup>154</sup>

The Commission’s review found that the FY 2020 Plan and FY 2019 Report retained many improvements implemented in past annual performance plans and annual performance reports.<sup>155</sup> The FY 2020 Plan complied with legal requirements in 39 U.S.C. § 2803 and the Commission’s directive to identify program activities and relate them to the performance goals.<sup>156</sup> However, while the FY 2019 Report met most requirements of 39 U.S.C. § 2804, it did not provide comparable results from the past three fiscal years or the required explanations for the High-Quality Service and Excellent Customer Experiences performance goals as required by 39 U.S.C. § 2804(c).<sup>157</sup>

The Commission also evaluated whether the Postal Service met each performance goal, finding that the Postal Service either did not meet or only partially met each performance goal in FY 2019.<sup>158</sup> The Commission provided related observations and recommendations for each performance goal to help the Postal Service meet the performance goal and better assess its performance in future years.<sup>159</sup>

## Rate Adjustments

One of the Commission’s major statutory responsibilities is to ensure that rate adjustments for Market Dominant and Competitive products comply with applicable statutory and regulatory requirements. There are two types of postal rates: (1) rates of general applicability, and (2) rates not of general applicability. Rates of general applicability are available to all mailers equally on the same terms and conditions.<sup>160</sup> These rates are available to the general public; examples include Forever Stamps and Priority Mail Flat Rate boxes.



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Rates not of general applicability are offered by the Postal Service to specific mailers through negotiated service agreements (NSAs).<sup>161</sup> NSAs are written contracts between the Postal Service and a mailer that are effective for a defined period of time.<sup>162</sup> They provide for customer-specific rates, fees, or terms of service according to the terms and conditions of the contract.<sup>163</sup>

In FY 2020, the Commission reviewed the Postal Service’s proposed changes to rates of general applicability and rates not of general applicability for both Market Dominant and Competitive products. Each is discussed below.

## Market Dominant Products

### RATES OF GENERAL APPLICABILITY

The PAEA allows the Postal Service to change rates of general applicability for Market Dominant products as long as the rate adjustments meet certain statutory and regulatory requirements:

- Rate adjustments for each Market Dominant mail class must not exceed the price cap, an annual limitation based on the Consumer Price Index for All Urban Consumers<sup>164</sup>
- Workshare discounts must not exceed the Postal Service's avoided costs unless a statutory exception applies<sup>165</sup>
- Preferred rates must be set consistent with statutory requirements<sup>166</sup>

The rate adjustments must also comply with the Commission's rules in 39 C.F.R. part 3030.

On October 9, 2019, the Postal Service filed notice of proposed changes in rates of general applicability and related MCS changes for Market Dominant products.<sup>167</sup> The Commission reviewed the proposed rate adjustments for compliance with the statutory and regulatory requirements described above. After analyzing the filings and considering the comments received, the Commission issued an order approving the proposed rate adjustments and related MCS changes for USPS Marketing Mail, Periodicals, Package Services, and Special Services, finding that they complied with the requirements of title 39, the Commission's regulations, and other applicable laws.<sup>168</sup>

The Postal Service's proposed rate adjustments for First-Class Mail were addressed in separate orders. On November 13, 2019, the Commission issued an order remanding the rate adjustments initially proposed for First-Class Mail, finding that the proposed rates exceeded the price cap limitation specified by 39 U.S.C. § 3622(d).<sup>169</sup> It directed the Postal Service to file an amended notice of rate adjustment for First-Class Mail with modified rates that would comply with applicable



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legal requirements, which the Postal Service filed on November 20, 2019.<sup>170</sup>

After analyzing the filings and considering the comments received, the Commission issued Order No. 5340 approving the amended rate adjustments proposed for First-Class Mail, finding that they complied with the requirements of title 39.<sup>171</sup> The Commission reserved final disposition of issues not addressed in Order No. 5340.<sup>172</sup> On December 20, 2019, the Commission issued a separate order addressing these issues and found that the amended rate adjustments and related MCS changes for First-Class Mail were consistent with applicable laws and regulations.<sup>173</sup>

On June 1, 2020, the Postal Service filed another notice of rate adjustment proposing

a new rate incentive that would effectively reduce the rate for Every Door Direct Mail Retail (EDDM Retail),<sup>174</sup> a USPS Marketing Mail product designed mainly for local businesses to send geographically-targeted advertising mail to every household or business on a postal delivery route.<sup>175</sup> After analyzing the filings

and considering the comments received, the Commission issued an order concluding that the proposed rate adjustment and MCS changes for EDDM Retail were consistent with the price cap and preferential rate requirements under title 39, as well as the price cap calculation requirements contained in the Commission’s regulations.<sup>176</sup>

#### RATES NOT OF GENERAL APPLICABILITY

For Market Dominant products, the Postal Service sets rates not of general applicability by entering into NSAs with mailers or groups of mailers.<sup>177</sup> The Commission reviews these NSAs

to ensure they comply with 39 U.S.C. § 3622(c) (10) and the Commission’s regulations in 39 C.F.R. part 3030, subpart D. No Market Dominant NSAs were filed in FY 2020.

### Competitive Products

The Commission reviews the Postal Service’s proposed rate adjustments for Competitive products to ensure they comply with three statutory requirements in 39 U.S.C. § 3633(a):

1. Market Dominant products must not subsidize Competitive products<sup>178</sup>
2. Revenue for each Competitive product must cover its attributable costs, which are “the direct and indirect postal costs attributable to such product through reliably identified causal relationships”<sup>179</sup>

3. All Competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service’s institutional costs<sup>180</sup>

Competitive rate adjustments must also comply with the Commission’s rules in 39 C.F.R. part 3035. In FY 2020, the Commission reviewed the Postal Service’s proposed changes to both rates of general applicability and rates not of general applicability for Competitive products. Each is discussed below.

#### RATES OF GENERAL APPLICABILITY

On October 9, 2019, the Postal Service filed a notice proposing changes in rates of general applicability for several domestic and international Competitive products, along with proposed changes to the MCS.<sup>181</sup> After reviewing the notice, the CHIR responses, and the comments received, the Commission approved the proposed rate and MCS changes, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations.<sup>182</sup>

On August 14, 2020, the Postal Service filed a notice proposing time-limited changes in rates of general applicability for Competitive products.<sup>183</sup>

The Postal Service proposed increasing rates for Priority Mail Express, Priority Mail, First-Class Package Service, Parcel Select, and Parcel Return Service effective October 18, 2020.<sup>184</sup> Rates would roll back to current levels on December 27, 2020.<sup>185</sup> After reviewing the notice, the CHIR response, and the comments received, the Commission approved the proposed rate adjustments, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations.<sup>186</sup>

The Postal Service also proposed changes in rates of general applicability and associated MCS

revisions for Priority Mail Express and Priority Mail to implement a new Loyalty Program that would provide incentives for new and existing Postal Service Click-N-Ship customers.<sup>187</sup> After reviewing the notice, the CHIR response, and the

comments received, the Commission approved the proposed rate adjustments, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations.<sup>188</sup> The Loyalty Program began on August 1, 2020.<sup>189</sup>

## RATES NOT OF GENERAL APPLICABILITY

**Negotiated Service Agreements.** For Competitive products, the Postal Service sets rates not of general applicability by entering into NSAs with specific mailers. These NSAs require prior Commission review for compliance with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3035. In FY 2020, the Commission reviewed and approved 267 Competitive NSAs: 210 domestic and 57 international. Table III-1 shows the number of

NSAs the Commission approved between FY 2015 and FY 2020.

Products with non-published rates enable the Postal Service to enter into contracts featuring negotiated rates without prior Commission approval of the rates specific to each contract. The Commission reviews rates for the product as a whole for compliance with statutory

**Table III-1: Competitive NSAs Approved by the Commission<sup>a</sup>  
FY 2015 through FY 2020**

Competitive NSAs	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Domestic	210	191	226	211	187	81
International	57	25	81	104	97	58
<b>TOTAL</b>	<b>267</b>	<b>216</b>	<b>307</b>	<b>315</b>	<b>284</b>	<b>139</b>

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

**Table III-2: Non-Published Rate Contracts Implemented by the Postal Service  
FY 2015 through FY 2020**

Non-Published Rate	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Global Expedited Package Services Non-Published Rates 1-15	380	326	474	393	244	91
Priority Mail — Non-Published Rates 1 and 2	125	116	145	121	207	0
<b>TOTAL</b>	<b>505</b>	<b>442<sup>a</sup></b>	<b>619</b>	<b>514</b>	<b>451</b>	<b>91</b>

<sup>a</sup> FY 2019 totals differ from those reported in the FY 2019 Annual Report because some Priority Mail—Non-Published Rate NSAs were not included. See FY 2019 Annual Report at 31.



standards, rather than the rates for each contract before implementation. These non-published rate contracts must comply with applicable filing and regulatory requirements, including pre-approved pricing formulas, minimum cost coverage, and documentation. The absence of prior review of specific contract rates streamlines the approval process, providing the Postal Service with additional flexibility.

On June 25, 2020, the Commission approved the Postal Service’s request to add Priority Mail-Non-Published Rates 2 to the Competitive product list.<sup>190</sup> Table III-2 shows the number of non-published rate contracts implemented by the Postal Service between FY 2015 and FY 2020.

The Commission updates NSA statistics on its website.<sup>191</sup>

**International mail.** Inbound Parcel Post (at UPU rates) is a Competitive product for the acceptance and delivery of inbound parcels weighing up to 70 pounds from foreign postal operators at air rates, surface rates, and e-commerce parcel rates.<sup>192</sup> Rates for Inbound Parcel Post (at UPU rates) are rates not of general applicability because they are only available to foreign postal operators. Under the Regulations of the

Universal Postal Convention, the Postal Service and other foreign postal operators may qualify for semi-annual increases to their “base” rates for inbound air parcels if they provide certain value added services.<sup>193</sup> These rate increases are applied to the base rates effective January 1 and July 1 of each year.<sup>194</sup> During FY 2020, the Postal Service filed two rate adjustments for Inbound Parcel Post (at UPU rates).<sup>195</sup> The Commission issued two orders that analyzed the proposed rates pursuant to 39 U.S.C. § 3633(a) and acknowledged revised rates for this product.<sup>196</sup>

On August 14, 2020, the Postal Service proposed a change in rates not of general applicability for Inbound EMS 2, which covers Express Mail International documents and merchandise received from foreign postal operators for delivery in the Postal Service’s domestic delivery area.<sup>197</sup> After analyzing the filings and considering the comments received, the Commission approved the proposed rates, finding that they complied with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3035.105.<sup>198</sup>

The Commission also reviewed proposed self-declared rates for Inbound Letter Post, which are described below.<sup>199</sup>

## ASSUMED FEDERAL INCOME TAX

The Commission also reviewed Postal Service calculations related to Competitive products’ income. Each year, the Postal Service is required to calculate the assumed Federal income tax on income from its Competitive products and to transfer the amount calculated from the Competitive Products Fund to the Postal Service

Fund.<sup>200</sup> On January 10, 2020, the Postal Service filed its calculation of the assumed Federal income tax for FY 2019.<sup>201</sup> After reviewing the calculation and considering one comment received, the Commission approved the Postal Service’s calculation of the assumed Federal income tax on its FY 2019 Competitive products’ income.<sup>202</sup>

## Changes to Product Lists and the Mail Classification Schedule

The Postal Service and mail users may request that the Commission change the Market Dominant and Competitive product lists by adding new products, removing current products, or transferring products between the lists.<sup>203</sup> The Commission reviews requests to change the product lists for compliance with 39 U.S.C. § 3642 and the Commission’s regulations in 39 C.F.R. part 3040.<sup>204</sup>

The product lists are published in the MCS, which also includes rates, fees, and product descriptions for each product. The Postal Service may propose changes to the MCS by filing a request, which the Commission reviews

for compliance with its regulations.<sup>205</sup> The Postal Service may propose material changes or minor corrections to the MCS depending on “the degree to which the proposed alteration affects the characteristics of the product.”<sup>206</sup>

In FY 2020, the Commission reviewed and approved three minor corrections to the MCS concerning Adult Signature Service, Priority Mail Express International, and the country price list for international mail.<sup>207</sup> The Commission also approved requests by the Postal Service to change the product lists and MCS. The major dockets are discussed below.<sup>208</sup>

### Return Receipt for Merchandise (RRM) Service

On December 10, 2019, the Postal Service filed a renewed request to remove RRM service from the MCS.<sup>209</sup> RRM service “provide[d] retail and commercial mailers with the ability to obtain a mailing receipt and a return receipt postcard (with the recipient’s signature and date of delivery) for packages containing merchandise.”<sup>210</sup> The Postal Service filed its initial request to remove RRM service in FY 2015.<sup>211</sup> The Commission found that removing RRM service met the applicable requirements of 39 U.S.C. § 3642 and the Commission’s regulations.<sup>212</sup> It conditionally approved the request subject to adjustments to the unused rate adjustment authority for the Special Services class.<sup>213</sup> In response, the Postal Service notified the Commission that it would indefinitely defer the removal of RRM service.<sup>214</sup>

After a series of appeals, the D.C. Circuit vacated the Commission’s previous orders on the removal of RRM service.<sup>215</sup> The court concluded that 39 U.S.C. § 3642 was a “sufficient and complete mechanism” for considering requested changes

to the product lists and that removing a product from the product lists does not constitute a rate adjustment.<sup>216</sup> Because it had been more than a year since the D.C. Circuit issued its decision, and the Postal Service had not indicated a renewed intent to discontinue RRM service, the Commission closed the docket on August 29, 2019.<sup>217</sup> The Commission held that it would evaluate any future requests to remove a product from the MCS in light of the court’s decision.<sup>218</sup>

In its renewed request and motion to reopen the docket, the Postal Service stated that the Commission already held that removing RRM service from the MCS complies with 39 U.S.C. § 3642 and the Commission’s regulations.<sup>219</sup> It also confirmed that there had been no material changes concerning RRM service since 2015 that would require the Commission to revisit its initial findings.<sup>220</sup> After evaluating the request and considering the comments received, the Commission approved removing RRM service from the MCS and revised the MCS accordingly.<sup>221</sup>

## Customized Postage

On May 1, 2020, the Postal Service filed a request to remove Customized Postage from the Market Dominant product list and revise the MCS accordingly.<sup>222</sup> Customized Postage allows “authorized vendors [to] offer customers the ability to personalize postage indicia using the customer’s own images or text.”<sup>223</sup> The Postal Service explained that demand and revenue for Customized Postage products have steadily declined in recent years, and eligibility requirements for the program have caused customer complaints and legal disputes.<sup>224</sup>

After analyzing the filings, the CHIR response, and the comments received, the Commission approved the request because it complied with applicable statutory and regulatory requirements.<sup>225</sup> The Commission found that because the Postal Service cannot create an unfair competitive advantage against itself, eliminating Customized Postage does not constitute an abuse of market power.<sup>226</sup> It concluded that “[g]iven the lack of market



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power abuse by the Postal Service and after consideration of the available alternatives for postage and customization of mailings, the Commission has determined that the Postal Service has met the statutory and regulatory requirements for product removal.”<sup>227</sup> The Commission removed Customized Postage from the Market Dominant product list and revised the MCS accordingly.<sup>228</sup>

## International Mail

In FY 2020, the Postal Service filed several requests to change the product lists and MCS that relate to international NSAs and the Inbound Letter Post product.

**NSAs.** On December 13, 2019, the Postal Service filed a request to transfer five international Market Dominant NSAs from the Market Dominant to the Competitive product list.<sup>229</sup> The request proposed to remove these five NSAs from the Market Dominant product list and add them to the Competitive product list under the umbrella product Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1.<sup>230</sup> After analyzing the filings and considering comments received, the Commission found that the transfer request complied with the requirements of 39 U.S.C. §§ 3642 (product list changes)

and 3633 (Competitive products).<sup>231</sup> The Commission also found that because the NSAs were functionally equivalent to the baseline agreements for the umbrella product Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, the NSAs could be consolidated into this product.<sup>232</sup>

**Inbound Letter Post.** Inbound Letter Post consists of international mail that is mailed from foreign countries and is delivered in the United States.<sup>233</sup> Inbound Letter Post is divided into three shapes: small letters and cards, large letters or “flats,” and small packets and bulky letters.<sup>234</sup> Foreign postal operators reimburse the Postal Service for delivering Inbound Letter Post items at rates called terminal dues, which are set by the UPU.<sup>235</sup>

Terminal dues for Inbound Letter Post have long been a concern of the Commission and

other postal stakeholders because they have historically not covered the Postal Service's costs for delivery.<sup>236</sup> In FY 2018, President Donald J. Trump issued a presidential memorandum directing the Secretary of State to seek agreement to reform the UPU terminal dues system to ensure that prices are consistent with the policies outlined in the memorandum.<sup>237</sup> The White House Press Secretary subsequently issued a statement noting that sufficient progress had not been made on reforming the UPU terminal dues system.<sup>238</sup> In this statement, the President concurred with the State Department's recommendation to adopt self-declared rates for terminal dues no later than January 1, 2020.<sup>239</sup> The State Department also notified the UPU that the United States would withdraw in 1 year.<sup>240</sup>

In response to the notice of withdrawal, the UPU held its Third Extraordinary Congress in September 2019 and adopted proposals authorizing the Postal Service to charge self-declared rates for Inbound Letter Post small packets effective July 1, 2020.<sup>241</sup> As a result, the United States withdrew its notification that it would leave the UPU.<sup>242</sup>

On October 29, 2019, the Postal Service filed with the Commission proposed self-declared rates that would be implemented on July 1, 2020.<sup>243</sup> On November 20, 2019, the Postal Service filed a motion to implement the transfer of Inbound Letter Post small packets from the Market Dominant to the Competitive product list effective January 1, 2020.<sup>244</sup> The Commission reviewed the motion along with the Postal Service's proposed self-declared rates. After analyzing the filings and considering comments received, the Commission granted the motion and approved adding a new product called Inbound Letter Post Small Packets and Bulky Letters to

the Competitive product list effective January 1, 2020.<sup>245</sup> The Commission also approved proposed rates for this product effective July 1, 2020.<sup>246</sup>

The Postal Service filed the self-declared rates for Inbound Letter Post Small Packets and Bulky Letters under seal and requested that the Commission treat these rates as non-public.<sup>247</sup> On March 9, 2020, the Commission issued a final determination finding that these rates should be unsealed.<sup>248</sup> It found that the Postal Service did not meet its burden of persuasion to demonstrate that the rates should be non-public.<sup>249</sup> The Commission stated that unsealing the rates "will substantially further the public interest" and that it was unlikely that disclosing the rates would result in commercial harm to the Postal Service.<sup>250</sup> It directed the Postal Service to publicly file the rates 7 days after the UPU publishes them, which the Postal Service did on April 6, 2020.<sup>251</sup>

The Postal Service also filed with the Commission proposed self-declared rates for Inbound Letter Post Small Packets and Bulky Letters effective January 1, 2021.<sup>252</sup> The Postal Service filed the proposed rates under seal and requested that the Commission afford these rates non-public treatment.<sup>253</sup> After analyzing the filings and considering comments received, the Commission approved the proposed rates for Inbound Letter Post Small Packets and Bulky Letters on May 8, 2020, finding that they complied with the statutory and regulatory requirements for Competitive products.<sup>254</sup> On June 3, 2020, the Commission issued a final determination finding these rates should be unsealed and ordered the Postal Service to file them publicly 7 days after the UPU published them.<sup>255</sup> The Postal Service filed these rates publicly on July 20, 2020.<sup>256</sup>

## Public Inquiries

Public inquiry dockets are established by the Commission to provide a venue to explore issues of general interest. Three public inquiry dockets were before the Commission in FY 2020

## Service Performance

Service performance results measure how often the Postal Service meets its service standards, which are the stated days-to-delivery for different types of mail.<sup>257</sup> Service performance for Market Dominant products is measured using SPM systems. In FY 2018, the Commission conditionally approved the Postal Service's request to implement new internal SPM systems for several Market Dominant products, including products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.<sup>258</sup> In FY 2018 and FY 2019, the Commission issued two orders conditionally approving modifications to the internal SPM systems.<sup>259</sup> The Postal Service began using data generated from the new SPM systems in the first quarter of FY 2019 to fulfill the statutory and regulatory requirements for service performance measurement of the affected products.

that dealt with matters related to service performance, the value of the postal and mailbox monopolies, and city carrier costs.

On June 12, 2020, the Postal Service filed a request seeking final approval to use the internal SPM systems as the official measurement system for service performance reporting for certain Market Dominant products and services.<sup>260</sup> The Postal Service asserted that it satisfied the conditions described in previous orders.<sup>261</sup> On July 1, 2020, the Commission issued an order finding that the Postal Service satisfied the Commission's directives for conditional modifications described in previous orders.<sup>262</sup> The Commission granted the request "subject to the continuation of the external auditing program and the inclusion of appropriate explanations in the first annual compliance report based on data from SPM" for the specific products at issue.<sup>263</sup>

## Value of Postal and Mailbox Monopolies

In the Annual Report, the Commission estimates the value of the Postal Service's combined letter and mailbox monopolies, which together are referred to as the postal monopoly.<sup>264</sup> The Annual Report includes a separate estimate of the value of the mailbox monopoly alone.<sup>265</sup> The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence.<sup>266</sup> The mailbox monopoly is the Postal Service's exclusive right to deliver to and collect from mailboxes.<sup>267</sup>

On October 1, 2019, the Commission initiated a public inquiry docket to evaluate the methodology for estimating the value of the

postal and mailbox monopolies.<sup>268</sup> The current methodology estimates the hypothetical lost profit to the Postal Service if potential competitors were allowed to enter and compete in the Postal Service's letter and mailbox monopolies.<sup>269</sup> The Commission sought comments and suggestions for changing and enhancing the current estimation methodology "to account specifically for recent Postal Service data changes, and for any other aspects of the monopolies estimation methodology."<sup>270</sup> Five CHIRs were issued, and six comments were received. This docket is currently pending before the Commission.

## City Carrier Costs

In FY 2017, the Commission established Docket No. PI2017-1 to evaluate the Postal Service's progress in its ongoing efforts to update its city carrier cost models and data collection capabilities as required by the Commission.<sup>271</sup> This docket investigates "the feasibility of a top-down, single-equation model to improve the Postal Service's variability estimates of city carrier cost drivers."<sup>272</sup> The Commission issued several CHIRs and provided an opportunity for interested persons to comment.<sup>273</sup>

On November 2, 2018, the Commission issued an interim order in this proceeding.

The Commission stated that based on the CHIR responses and the comments received, additional data are necessary to evaluate whether the Postal Service's city carrier costing models can be improved.<sup>274</sup> Accordingly, the Commission directed the Postal Service to provide an expanded dataset of city carrier delivery data, as well as report quarterly on the status of developing the expanded dataset.<sup>275</sup> In FY 2019, the Postal Service began providing data and status reports as directed by the interim order. This proceeding is currently pending before the Commission.

## Proposals to Change Analytical Principles

Analytical principles are theories or assumptions the Postal Service applies when producing reports it submits to the Commission each year.<sup>276</sup> In these reports, the Postal Service must only use accepted analytical principles, which are the analytical principles the Commission applied in the most recent ACD unless a different analytical principle is approved through a Commission proceeding.<sup>277</sup> The Commission's rules allow any interested person, including the Postal Service and a Public Representative, to petition the Commission to initiate proceedings to consider proposals to change an accepted analytical principle.<sup>278</sup> These proceedings, which are filed in rulemaking dockets, are intended to improve the quality, accuracy, or completeness of data or data analysis in the reports the Postal Service submits each year to the Commission.<sup>279</sup>

During FY 2020, the Commission considered 15 Postal Service proposals to change various accepted analytical principles and 1 proposal filed by United Parcel Service, Inc. (UPS). The Commission issued final orders for 13 of the proposals. At the end of FY 2020, three proposals were pending before the Commission.

**Docket No. RM2019-16 (Proposal One).** In this docket, the Postal Service sought to revise the cost attribution procedures for Special Purpose Routes (SPRs) used in the Cost and Revenue Analysis Report.<sup>280</sup> Proposal One was based on a new study of SPR costs that used operational carrier data to reflect the current structure of SPR activities.<sup>281</sup> The Postal Service reported that approving Proposal One would result in two primary cost shifts.<sup>282</sup> First, costs for Competitive products would increase and costs for some Market dominant products would decrease.<sup>283</sup> Second, costs associated with packages would increase and costs for letters and flats would decrease.<sup>284</sup> The Postal Service used data from the FY 2018 ACR to estimate the impact of Proposal One.<sup>285</sup> The Postal Service reported that Proposal One would result in an increase of \$124.7 million in attributable costs for domestic Competitive mail products and in a decrease of \$67.8 million in attributable costs for domestic Market Dominant mail products.<sup>286</sup> The overall impact on attributable costs for domestic products would be an increase of approximately \$57.0 million.<sup>287</sup>

On January 14, 2020, the Commission approved Proposal One with some modifications.<sup>288</sup> The

Commission found that the new SPR costing study reflects how SPR activities have changed in the more than 20 years since the special study underlying the existing methodology was conducted.<sup>289</sup> The Commission found that the new SPR costing study is an improvement in part because it uses operational data, where available, instead of survey data, which is likely to enhance the quality of the methodology.<sup>290</sup> The Commission also found it appropriate that the Postal Service developed new cost pools to reflect operational realities of SPR activities.<sup>291</sup> The Commission found the applied econometric models to be an improvement, but modified the specifications of the delivery equations.<sup>292</sup>

**Docket No. RM2020-1 (Proposal Nine).** In this docket, the Postal Service sought to update the methodology for estimating facility-related costs.<sup>293</sup> The existing methodology for allocating facility-related costs to products used input data from a 1999 study presented in Docket No. R2005-1.<sup>294</sup> The Postal Service had applied the existing methodology in subsequent ACR dockets and included changes that reflected facility space usage changes that occurred each fiscal year since 2005.<sup>295</sup> In FY 2016, the Postal Service Office of Inspector General (OIG) issued an audit report recommending that the Postal Service conduct a new study on facility space usage.<sup>296</sup> The Postal Service conducted this study in 2018 and 2019 and incorporated data from that study in Proposal Nine.<sup>297</sup>

In FY 2018, facility-related space provision and space support costs accounted for \$4.7 billion, or 6.3 percent of total costs.<sup>298</sup> Compared to Docket No. ACR2018, Proposal Nine would increase total domestic Market Dominant mail attributable costs by \$127.3 million and decrease total domestic Market Dominant services attributable costs by \$303.8 million.<sup>299</sup> Combined, overall total domestic Market Dominant attributable costs would decrease by \$176.5 million, and total domestic Competitive attributable costs would increase by \$85.3 million.<sup>300</sup> Total attributable costs for First-Class Mail and USPS Marketing

Mail would increase by \$69.2 million and \$54.3 million, respectively.<sup>301</sup>

The Commission approved Proposal Nine on August 17, 2020.<sup>302</sup> It found that the more recent study better reflects current operations and functions that have changed in the past 20 years since the 1999 study, which underlies the existing methodology.<sup>303</sup> The Commission also viewed the more recent study as an improvement over the existing methodology because it uses more current operational data to update, validate, and adjust the space estimates, which significantly improves the quality, accuracy and completeness of the Postal Service's facility-related space cost models.<sup>304</sup>

**Docket No. RM2020-7 (Proposal Two).** In this docket, the Postal Service proposed a methodology for updating city carrier regular letter and flat street delivery time variabilities annually to reflect changes in the relative volumes of letter and flat mail.<sup>305</sup> The existing methodology computed regular delivery time variabilities using mean volumes that were typically calculated from data in a City Carrier Street Time study conducted in 2013.<sup>306</sup> Proposal Two proposed to update the regular delivery time variabilities using more recent mean volumes that are calculated by forming the needed volume proportions using more recent data from the FY 2019 City Carrier Cost System (CCCS) volumes.<sup>307</sup> This approach would keep total volumes of letters and flats the same as they were under the existing methodology and only change the relative proportions between volumes of letters and flats to reflect current volume patterns.<sup>308</sup> The Postal Service would apply Proposal Two annually to update mean volumes that would make it possible to update the delivery marginal times and variabilities.<sup>309</sup>

To estimate the impact of Proposal Two, the Postal Service recalculated the regular delivery variabilities using FY 2019 CCCS volume proportions.<sup>310</sup> Comparing current and new variabilities showed that for both delivery point

sequence mail and cased mail, the new variabilities were approximately 0.5 percent higher than the current variabilities.<sup>311</sup> By contrast, the new variabilities for sequenced mail and FSS flats were lower than the existing ones by 1.0 percent and 1.1 percent respectively.<sup>312</sup> The Postal Service also determined that the new variabilities reduced the gap between FSS and non-FSS unit street time costs for flats.<sup>313</sup> The new variabilities also resulted in changes to the unit volume variable city carrier costs for nearly all products, the largest impact being on unit variable costs for High Density and Saturation Flats and Parcels, which decreased by 1.2 cents per piece.<sup>314</sup> For domestic Competitive mail products and services, Proposal Two would result in a decrease of unit volume variable costs of 0.2 cents per piece on average.<sup>315</sup>

In Order No. 5583, the Commission approved Proposal Two because it improves the accuracy of unit volume variable costs by annually updating mean volumes and recalculating the city carrier regular delivery street time variabilities to reflect current volume proportions among delivered mail components.<sup>316</sup> The Commission also found that annually updating mean volumes of city carrier regular delivery mail will result in more accurate regular delivery street time variabilities and will produce a more accurate estimate of city carrier volume variable costs until a new city carrier street time model is developed.<sup>317</sup>

**Other proposals.** In FY 2020, the Commission approved several other proposed methodology changes regarding domestic and international mail. Docket No. RM2019-12 (Proposal Seven) changed the methodology used to determine the share of supervisor costs on Sundays and holidays at customer service offices and to distribute these costs to products.<sup>318</sup> The previous methodology had used the In-Office Cost System (IOCS) to estimate work time for supervisors.<sup>319</sup> The methodology approved in Proposal Seven uses Time and Attendance Collection System (TACS) workhours to determine the share of costs for supervisors at customer service offices on Sundays and holidays.<sup>320</sup> Then it distributes these costs to products using the

same Product Tracking and Reporting distribution key used for city carriers delivering packages on Sundays and holidays.<sup>321</sup>

Docket No. RM2019-14 (Proposal Eight) modified the Parcel Select/Parcel Return Service mail processing and transportation cost models by incorporating Parcel Select Lightweight mailpieces.<sup>322</sup> Docket No. RM2020-6 (Proposal One) changed the revenue, pieces, and weight (RPW) reporting methodology “for measuring the national totals of non-contract mailpieces in domestic parcel mail categories bearing PC Postage indicia from postage evidencing systems” by replacing sampling estimates with corresponding census transactional data.<sup>323</sup>

Docket No. RM2020-10 (Proposal Three) changed the IOCS methodology for sampling city carriers from the existing IOCS sampling methodology to an IOCS-Cluster sampling system, which the Commission found improved the overall accuracy of the city carrier cost estimates.<sup>324</sup>

The Commission also approved seven proposed methodology changes relating to international mail products. These changes included revising the following:

- The revenue distribution methodology for Inbound LC/AO mailpieces<sup>325</sup>
- The costing methodology for the distribution of PRIME enhanced payments<sup>326</sup>
- The costing methodology for the treatment of the non-NSA portions of International Priority Airmail and International Surface Airlift<sup>327</sup>
- The methodology for reporting revenue, pieces, and weight of Priority Mail Express International in the Postal Service’s RPW report<sup>328</sup>
- The International Cost and Revenue Analysis reporting methodology used to estimate international mail settlement expenses<sup>329</sup>
- The RPW reporting methodology “for measuring the national totals of non-contract mailpieces in outbound international product categories bearing PC Postage indicia from postage evidencing systems”<sup>330</sup>



**Pending proposals.** Three proposals were open at the end of FY 2020. In Docket No. RM2020-2 (Proposal Ten), the Postal Service proposed a new methodology for calculating the cost variability of postmasters.<sup>331</sup> In Docket No. RM2020-13 (Proposal Six), the Postal Service proposed establishing a new methodology to determine the volume variability factors for the mail processing cost pools representing automated letter and flat sorting operations.<sup>332</sup>

In Docket No. RM2020-9 (UPS Proposal One), UPS requested that the Commission change how the Postal Service determines incremental

costs and accounts for peak-season costs in its periodic reports.<sup>333</sup> UPS alleged that existing costing models approved by the Commission fail to account for increased seasonal costs.<sup>334</sup> On September 29, 2020, a video technical conference was held online in this proceeding to consider matters raised by UPS Proposal One.<sup>335</sup> The Commission provided interested persons an opportunity to comment on matters raised by UPS Proposal One and at the technical conference.<sup>336</sup> The Commission is currently considering comments received.

## Other Proceedings

Several other proceedings were before the Commission in FY 2020: two complaint cases,

two market tests, and one post office closing appeal. Each proceeding is described below.

## Complaints

In FY 2020, the Commission adjudicated two complaint cases. A complaint may be filed with the Commission by any interested person who believes the Postal Service is not complying with certain requirements of title 39.<sup>337</sup> One requirement is 39 U.S.C. § 403(c), which states that the Postal Service must not “make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.” On December 23, 2019, Randall Ehrlich filed a complaint alleging violations of section 403(c) based on an ongoing suspension of mail service to his home.<sup>338</sup> The Postal Service filed a motion to dismiss, to which Mr. Ehrlich filed a response.<sup>339</sup>

On March 17, 2020, the Commission issued an order denying the motion to dismiss and finding that the complaint raised material issues of fact.<sup>340</sup> It initiated limited formal proceedings by appointing a Presiding Officer to set a procedural schedule and conduct limited discovery to resolve disputed issues of fact.<sup>341</sup> On May 22, 2020, the Postal Service again

moved to dismiss the complaint because it had permanently restored residential mail delivery to Mr. Ehrlich’s mailbox.<sup>342</sup> On June 2, 2020, the Presiding Officer issued an intermediate decision that included findings of fact and conclusions of law and addressed issues raised in the proceeding.<sup>343</sup> She dismissed the complaint without prejudice.<sup>344</sup> Consistent with applicable Commission rules, because no party filed an exception to the intermediate decision, it became the final Commission action as of July 2, 2020.<sup>345</sup> However the Presiding Officer also allowed Mr. Ehrlich to request to reopen the case within 6 months of that July 2, 2020 date if the Postal Service suspends mail delivery without sufficient justification during that time period.<sup>346</sup>

The Commission also adjudicated a complaint filed by the Greeting Card Association (GCA) alleging that the Postal Service’s rates for Single-Piece First-Class Stamped and Metered Letter mail violated 39 U.S.C. § 403(c) by illegally price discriminating against household mailers in favor of business mailers.<sup>347</sup> GCA also alleged that these rates failed to

achieve several objectives of the postal regulatory system, set out in 39 U.S.C. § 3622(b).<sup>348</sup> The Postal Service, the National Postal Policy Council, and Pitney Bowes, Inc. filed motions to dismiss the complaint, to which GCA filed answers.<sup>349</sup>

On April 28, 2020, the Commission issued an order granting the Postal Service's motion to dismiss the complaint with prejudice.<sup>350</sup> The Commission explained that it had already considered and rejected GCA's arguments about section 3622 in numerous prior Commission proceedings.<sup>351</sup> Regarding violations of section 403(c), the Commission stated that to succeed on this claim, GCA must pass a three-part test for evaluating whether price discrimination rises to the level of "undue or unreasonable."<sup>352</sup> GCA

must establish that household mailers "have been offered less favorable rates or terms and conditions" compared to other mailers and are "similarly situated to the other mailer or mailers who have been offered more favorable rates or terms and conditions of service[.]"<sup>353</sup> Also, there must be no rational or legitimate basis for the Postal Service to deny household mailers the more favorable rates or terms and conditions.<sup>354</sup>

The Commission applied this test and determined that GCA could not establish the third prong of the price discrimination test because the Postal Service has provided a reasonable rationale for offering the metered letter rate.<sup>355</sup> Accordingly, the Commission dismissed the complaint with prejudice.<sup>356</sup>

## Market Tests and Post Office Closing Appeals

The PAEA permits the Postal Service to conduct market tests of experimental products, which allows the Postal Service to offer products and services for a limited time period without first adding them to product lists.<sup>357</sup> Before initiating a market test, the Postal Service must provide 30 days advance notice to the Commission through a filing containing certain information.<sup>358</sup> In FY 2020, the Postal Service filed notices of two market tests. Commercial PO Box Redirect Service redirects automated letters during mail processing from the Commercial PO Box listed on the mailpiece to a second Commercial PO Box.<sup>359</sup> Extended Mail Forwarding provides customers who submit a permanent change-of-address request the option to extend forwarding of all First-Class Mail, First-Class Package Service Commercial, and Priority Mail mailpieces beyond the 1-year forwarding period.<sup>360</sup> After analyzing the filings and considering comments received, the Commission authorized the market tests to

proceed, finding that they complied with the applicable statutory and regulatory requirements in 39 U.S.C. § 3651 and 39 C.F.R. part 3045.<sup>361</sup>

The PAEA also permits any person served by a post office to appeal its closing or consolidation to the Postal Regulatory Commission.<sup>362</sup> In FY 2020, the Commission reviewed one post office closing appeal filed by the City of Bellville, Georgia (GA) regarding the closing of the Bellville, GA post office.<sup>363</sup> The Postal Service filed a motion to dismiss the appeal, and the City of Belleville filed a brief opposing it.<sup>364</sup>

On August 27, 2020, the Postal Service filed a notice of its decision to pause the Belleville, GA post office closing.<sup>365</sup> The Commission issued an order dismissing the appeal without prejudice, which allows persons served by the Bellville, GA post office to appeal its closure if and when the Postal Service establishes a revised date for closing the post office.<sup>366</sup>

## Court of Appeals Cases

A person adversely affected or aggrieved by the Commission's final order or decision may appeal the order or decision to the D.C. Circuit within

30 days after it becomes final.<sup>367</sup> In FY 2020, the D.C. Circuit issued several decisions involving Commission orders, which are discussed below.

### Inbound Letter Post Unsealing

As part of its FY 2018 ACR, the Postal Service filed under seal and applied for non-public treatment of a library reference containing data on Inbound Letter Post.<sup>368</sup> On April 12, 2019, the Commission issued its FY 2018 ACD, which included an analysis of Inbound Letter Post data in an accompanying library reference.<sup>369</sup> Because the Commission's library reference contained data that the Postal Service filed under seal, the Commission filed both its analysis and the underlying data under seal in Library Reference PRC-LR-ACR2018-NP3.<sup>370</sup> Concurrently, the Commission issued a notice of its preliminary determination that it would not be appropriate to accord that library reference non-public treatment and that the materials should be unsealed.<sup>371</sup> It provided interested persons an opportunity to comment.<sup>372</sup>

After considering comments received, the Commission issued an order directing that the library reference be unsealed.<sup>373</sup> It determined that disclosure of the aggregated Inbound Letter Post data and analysis would substantially further the public interest in maintaining financial transparency of the Postal Service.<sup>374</sup> The Commission explained that the public interest in maintaining the Postal Service's financial transparency "outweigh[ed] the nature and extent of any likely commercial harm that may result from disclosing the aggregated historical data."<sup>375</sup>

The Postal Service filed a petition for review appealing this order to the D.C. Circuit.<sup>376</sup>

The Commission stayed release of the data under seal pending the D.C. Circuit's review.<sup>377</sup> On June 30, 2020, the D.C. Circuit issued its decision denying the petition for review and finding that the Commission's order was neither contrary to law nor arbitrary and capricious.<sup>378</sup> The D.C. Circuit found that the Commission reasonably ordered disclosure of the library reference, and the Postal Service's arguments "fail to overcome the deference [the court] owes to the Commission's reasoned decisions."<sup>379</sup> It stated it was "reasonable for the Commission to consider the extent to which commenters have expressed an interest in disclosure, and indeed, the Administrative Procedure Act require[d] the Commission to address significant public comments."<sup>380</sup>

On September 1, 2020, Library Reference PRC-LR-ACR2018-NP3 was unsealed and posted on the Commission's website as a public library reference.<sup>381</sup>

In Docket No. ACR2019, the Commission made a similar determination regarding a non-public library reference filed with the FY 2019 ACD that also contained Inbound Letter Post data.<sup>382</sup> The Commission stated it was "not appropriate to accord non-public treatment to the data and analysis" in the library reference and directed that these materials should be unsealed.<sup>383</sup> The FY 2019 data also were unsealed contemporaneous with issuing the Commission's determination regarding the FY 2019 ACD data.<sup>384</sup>

## Review of Appropriate Share Requirement

The PAEA requires that Competitive products “collectively cover what the Commission determines to be an appropriate share of the [Postal Service’s] institutional costs ... .”<sup>385</sup> At least every 5 years, the Commission must review the appropriate share requirement to decide whether any changes are necessary.<sup>386</sup> When making this determination, the Commission must consider, among other factors, “the degree to which any costs are uniquely or disproportionately associated with any [C]ompetitive products.”<sup>387</sup> On January 3, 2019, the Commission adopted final rules for annually calculating Competitive products’ appropriate share of institutional costs.<sup>388</sup>

UPS filed a petition for review appealing the final rules to the D.C. Circuit.<sup>389</sup> The court granted the petition for review, finding that the Commission had not adequately explained how the attribution of costs through the use of “reliably identified causal relationships” can coincide with costs “uniquely or disproportionately associated with any [C]ompetitive products.”<sup>390</sup> The court also stated that when setting the appropriate share, the Commission did not adequately consider “the degree to which *any* costs are uniquely or disproportionately associated with any [C]ompetitive products” as required by 39 U.S.C. § 3633(b).<sup>391</sup> The court remanded the case to the Commission to address these issues consistent with the court’s decision.<sup>392</sup> The remand is currently pending before the Commission.

## First-Class Mail Rate Adjustments

The D.C. Circuit issued a decision regarding Order No. 4875, in which the Commission found that the Postal Service’s planned Market Dominant rate and MCS changes were consistent with applicable law.<sup>393</sup> In FY 2019, Douglas F. Carlson filed a petition for review appealing the portion of Order No. 4875 related to First-Class Mail to the D.C. Circuit.<sup>394</sup> On September 13, 2019, the D.C. Circuit issued its opinion granting the petition for review and vacating the portion of Order No. 4875 addressing rate adjustments for First-Class Mail.<sup>395</sup> Specifically, the court concluded that Order No. 4875 failed to provide an adequate explanation for the Stamped Letters price increase, address the statutory objectives and factors relevant to the Stamped Letters price

increase, and respond to comments challenging the Stamped Letters price increase under the statutory objectives and factors.<sup>396</sup>

In accordance with the D.C. Circuit’s decision, the Commission issued Order No. 5285, which applied the requirements of the PAEA, the Administrative Procedure Act,<sup>397</sup> and the Commission’s regulations to determine whether the First-Class Mail rate adjustments were consistent with applicable law.<sup>398</sup> After considering the objectives and factors of 39 U.S.C. § 3622(b) and (c), the reasons for the Stamped Letters price increase, and the comments received, the Commission concluded that the rate adjustments for First-Class Mail were consistent with applicable law.<sup>399</sup>

## Other Court of Appeal Cases

In FY 2019, the Commission issued an order dismissing a complaint filed by Mr. Ehrlich that alleged an ongoing suspension of mail service to his home and sought specified actions to

resolve his complaint.<sup>400</sup> Mr. Ehrlich appealed the Commission’s order to the D.C. Circuit.<sup>401</sup> On December 10, 2019, the D.C. Circuit issued a judgment denying the petition for review, finding

that the Commission provided a “well-reasoned” justification for its decision.<sup>402</sup> It stated that Mr. Ehrlich “failed to show that the Postal Service has offered more favorable rates or terms and conditions [of mail service] to similarly situated individuals.”<sup>403</sup> The D.C. Circuit concluded that the Commission’s decision withstood its deferential arbitrary-and-capricious standard of review.<sup>404</sup>

The D.C. Circuit also denied a motion filed by Elaine Mittleman to recall a mandate from an earlier court decision. In FY 2014, the D.C. Circuit issued a decision denying petitions for review filed by Ms. Mittleman and two other petitioners

regarding three Commission orders dismissing post office closing appeals.<sup>405</sup> The D.C. Circuit issued a mandate finalizing the decision on October 29, 2014.<sup>406</sup> On September 25, 2020, Ms. Mittleman filed a motion with the D.C. Circuit to recall the mandate, which the Commission opposed.<sup>407</sup> On October 23, 2020, the D.C. Circuit issued an order denying Ms. Mittleman’s motion without issuing an opinion.<sup>408</sup>

The Postal Service and other parties filed petitions for review appealing the Commission’s final rules adopting changes to the regulations governing the Market Dominant Rate System.<sup>409</sup> These appeals are pending before the D.C. Circuit.

## International Postal Policy

The Secretary of State is responsible for formulating, coordinating, and overseeing international postal policy, as well as concluding postal treaties such as those involving the UPU.<sup>410</sup> Headquartered in Bern, Switzerland, the UPU is an international treaty organization responsible for facilitating high-quality universal mail service at affordable rates. Although the State Department has primary authority over international postal policy, it must request the Commission’s views on whether any treaty, convention, or amendment that establishes a rate or classification for a Market Dominant product is consistent with the Market Dominant Rate System.<sup>411</sup> The State Department must ensure that each treaty, convention, or amendment concluded is consistent with the Commission’s views unless there is a foreign policy or national security concern.<sup>412</sup>

Pursuant to 39 U.S.C. § 407(c)(1), the Secretary of State requested that the Commission provide its views on the “consistency of proposals to amend rates or classifications for [M]arket [D]ominant

products or services within the Universal Postal Convention that will be considered at the upcoming 27th Universal Postal Union (UPU) Congress with the standards and criteria established by the Commission under 39 U.S.C. § 3622[.]” which was initially scheduled to occur in August 2020.<sup>413</sup>

Pursuant to section 407(c)(1) and the Commission’s regulations, the Commission established Docket No. IM2020-1 for the purpose of “developing its views on whether certain proposals for the upcoming UPU Congress are consistent with the standards and criteria for modern rate regulation established by the Commission under 39 U.S.C. 3622” and set a deadline for public comment.<sup>414</sup> The Commission subsequently posted proposals and a background document for public comment.<sup>415</sup> Because the UPU later postponed the 27<sup>th</sup> UPU Congress due to the COVID-19 pandemic,<sup>416</sup> the Commission stated it will provide a revised comment deadline once the 27<sup>th</sup> UPU Congress is rescheduled.<sup>417</sup>

## CHAPTER IV | Universal Service Obligation and Postal Monopoly



### Background

In this chapter, the Commission provides its annual estimates of the cost of the Universal Service Obligation (USO) and the value of the postal monopoly. In its *Report on Universal Postal Service and the Postal Monopoly*, the Commission stated that the overarching USO of the Postal Service is set forth in 39 U.S.C. § 101(a), which states that the Postal Service must “provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” The USO has seven principal attributes: (1) geographic scope, (2) product range, (3) access, (4) delivery, (5) pricing, (6) service quality, and (7) an enforcement mechanism.<sup>418</sup>

The postal monopoly is the Postal Service’s exclusive right to carry and deliver certain types of mail and deposit mail into mailboxes.<sup>419</sup> Unlike the cost of the USO (USO Cost), the Commission is not required to estimate annually the value of the postal monopoly. The Commission provides estimates for both the USO Cost and a provisional value of the postal monopoly to present a balanced perspective.<sup>420</sup>

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

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

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve	0.53	0.50	0.46	0.39	0.35
Estimated Revenue Not Received Due to Free or Reduced Rates	1.89	1.79	1.71	1.64	1.63
Other Public Services or Activities <sup>a</sup>	2.91	2.92	2.35	2.37	2.26
<b>TOTAL</b>	<b>5.32</b>	<b>5.21</b>	<b>4.53</b>	<b>4.40</b>	<b>4.24</b>

<sup>a</sup>The FY 2018 and FY 2019 figures include the net cost of the Postal Inspection Service. The sum of columns may not equal total due to rounding.

## Estimated USO Cost

The PAEA requires the Commission to estimate the costs incurred by the Postal Service in providing three types of public services or activities:<sup>421</sup>

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

The USO Cost is the total amount of costs incurred by the Postal Service in providing these public services or activities. Table IV-1 illustrates the estimated USO Cost for the last 5 fiscal years, FY 2015 to FY 2019.<sup>422</sup>

In this chapter, the Commission provides estimates of the costs incurred by the Postal Service in providing the public services or activities under 39 U.S.C. § 3651(b)(1), describes related statutory requirements, and explains the methodologies used to estimate these costs.<sup>423</sup>

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

The Commission must estimate the costs incurred by the Postal Service in providing:

postal services to areas of the Nation where, in the judgment of the Postal Regulatory Commission, the Postal Service either would not provide services at all or would not provide such services in accordance with the requirements of [title 39 U.S.C.] if the Postal Service were not required to provide prompt, reliable, and efficient services to patrons in all areas and all

communities, including as required under the first sentence of [39 U.S.C.] section 101(b)[.]<sup>424</sup>

The Commission determines these costs by combining the estimated costs of maintaining small post offices, the Alaska Air Subsidy, and Group E Post Office Boxes. Table IV-2 compares the costs of each one from FY 2015 to FY 2019.

As shown in Table IV-2, the estimated total cost of providing postal services to areas of the nation the Postal Service would not otherwise serve increased each year between FY 2015 and

FY 2019. Until FY 2018, this increase was mainly due to the annual increase in clerk costs for maintaining small post offices.

In FY 2019, the increase was due to the increase in both the Alaska Air Subsidy and clerk costs for maintaining small post offices.

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

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Maintaining Small Post Offices</b>	358	340	309	245	209
<b>Alaska Air Subsidy</b>	135	120	114	113	107
<b>Group E Post Office Boxes</b>	35	35	34	34	33
<b>TOTAL</b>	<b>527</b>	<b>496</b>	<b>458</b>	<b>392</b>	<b>349</b>

\*The sum of columns may not equal total due to rounding.

## MAINTAINING SMALL POST OFFICES

The Postal Service maintains small post offices, which are generally located in rural or remote areas, as part of its duty “to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.”<sup>425</sup> The Postal Service uses Cost Ascertainment Group (CAG) classifications A to L to categorize post offices based on revenue generated.<sup>426</sup> Small post offices are those that fall within CAG K and L classifications.<sup>427</sup>

The Commission determines the costs of maintaining small post offices by estimating the amount the Postal Service would save if rural carriers on the street provided the same services as those provided at small post offices, as well as the amount of revenue lost from existing CAG K and L Post Office Boxes. The Commission uses the Rural Mail Count to estimate the cost of rural carriers providing retail services and for new delivery service to those who would no longer have a CAG K and L Post Office Box.<sup>428</sup>

Table IV-2 lists the estimated costs of maintaining small post offices from FY 2015 to FY 2019. The estimated costs of maintaining small post offices incorporate the main categories of employees who may perform functions that were previously performed primarily by postmasters.<sup>429</sup>

Table IV-3 disaggregates the costs of maintaining small post offices by component and illustrates the recent large shifts among these components. It also illustrates changes in employee categories staffing CAG K and L post offices. Total Postmaster direct and indirect costs increased 46 percent between FY 2015 and FY 2019, from \$26 million to \$38 million. Total CAG L leave replacement<sup>430</sup> costs declined 80 percent from \$102 million in FY 2015 to \$20 million in FY 2019. Conversely, beginning in FY 2015, CAG K clerk costs have increased substantially, from \$176 million in FY 2015 to \$408 million in FY 2019. Most of the total increase is made up of increased salary and benefit costs.



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

<b>Selected CAG K and L Post Offices Annual Operating Costs</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2017</b>	<b>FY 2016</b>	<b>FY 2015</b>
<b>CAG K and L Postmasters<sup>a</sup></b>	38	35	30	25	26
<b>CAG L Leave Replacements</b>	20	22	21	29	102
<b>CAG K Clerks</b>	408	384	358	289	176
<b>Total Potential Operating Costs Saved (If CAG K and L Post Offices Closed)</b>	466	441	408	343	304
<b>Annual Estimated Cost Saving Adjustments (If CAG K and L Post Offices Closed)</b>					
<b>Rural Carrier Now Provides Retail Services Costs<sup>b</sup></b>	23	19	18	18	17
<b>Rural Carrier Now Provides Delivery Service (CAG K and L Post Office Boxes No Longer Available)<sup>c</sup></b>	44	43	42	42	42
<b>CAG K and L Post Office Boxes Revenue Foregone<sup>d</sup></b>	42	40	38	37	36
<b>Total Annual Cost Savings Adjustment</b>	<b>109</b>	<b>101</b>	<b>99</b>	<b>97</b>	<b>96</b>
<b>Cost of Maintaining Small Post Offices (Potential Operating Costs Saved Less Cost Savings Adjustments)</b>	<b>358</b>	<b>340</b>	<b>309</b>	<b>245</b>	<b>209</b>

Note: The sum of individual row components may not equal totals due to rounding.

<sup>a</sup> Consistent with the USO Report, previous Annual Reports used the approximated total CAG K and L postmaster salary costs (along with overhead and other personnel and non-personnel related costs) to represent the total potential operating costs saved if CAG K and L post offices closed. Postmaster costs at CAG K and L post offices were derived by using the postmaster salary costs from the Postmaster Position Schedule CAG group proportions to distribute total postmaster (less CAG L leave replacements) costs to the CAG K and L group.

<sup>b</sup> The annual number of CAG K and L retail transactions was approximated using the most currently available data: the FY 2010 retail transactions per revenue dollar and the FY 2013 POSTPlan revenues in Docket No. N2012-1. The annual number of CAG K and L retail transactions was estimated to be approximately 142 million and was used in this calculation for the fiscal years shown in the table.

<sup>c</sup> FY 2010 CAG K and L Post Office Box volumes were used to estimate the number of new delivery points (for those CAG K and L Post Office Boxes no longer available if the post offices were to close).

<sup>d</sup> The FY 2010 CAG K and L Post Office Box volumes were used with the respective current fiscal year Post Office Box unit revenue (billing determinants) to estimate fiscal year CAG K and L Post Office Boxes revenue foregone. Sources: Postmaster Position Schedule CAG Group Proportions: Library Reference 32 in Docket Nos. ACR2015, ACR2016, ACR2017, ACR2018, and ACR2019 (CRA "B" Workpapers, "I-Forms" workbook, "I-CS01.0.2" tab).

Postmasters, CAG L Leave Replacement and Clerks CAG K costs: Library Reference 5 in Docket Nos. ACR2015, ACR2016, ACR2017, ACR2018, and ACR2019 (Cost Segments and Components Reconciliation to Financial Statement and Account Reallocation, "seg 1" and "seg 4" tabs in workbook). Rural Mail Count: Library Reference 40 in Docket Nos. ACR2015, ACR2016, ACR2017, ACR2018, and ACR2019.

## ALASKA AIR SUBSIDY

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

With Alaska Bypass Service, the Postal Service pays for the cost of air transportation from hub airports to bush sites. The difference between this cost of air transportation from hub airports to bush sites and the average cost of ground transportation if it were available is called the Alaska Air Subsidy. The Commission previously concluded that the Alaska Air Subsidy is part of the USO.<sup>431</sup> The Alaska Air Subsidy increased from \$120 million in FY 2018 to \$135 million in FY 2019.<sup>432</sup>

## GROUP E POST OFFICE BOXES

Group E Post Office Boxes are provided free of charge to customers when the Postal Service does not offer carrier delivery to their physical address.<sup>433</sup> To meet its USO delivery obligation,<sup>434</sup> the Postal Service makes Group E Post Office Boxes available “for the purpose of resolving potential discrimination issues arising from instances in which the Postal Service chooses to provide, or not to provide, customers with a carrier delivery option.”<sup>435</sup> In FY 2011, the Commission approved treating the cost of

providing Group E Post Office Boxes as an institutional cost to more equitably distribute the USO Cost. The Commission also concluded that this treatment was analogous to, and consistent with, the treatment of the Alaska Air Subsidy.<sup>436</sup> Consequently, the Commission included the cost of Group E Post Office Boxes, which are primarily facility-related, in estimating the USO Cost. In FY 2019, servicing Group E Post Office Boxes cost approximately \$35 million.

## Free or Reduced Rates

The Commission must estimate the costs incurred by the Postal Service in providing “free or reduced rates for postal services as required by [Title 39.]”<sup>437</sup> The Commission estimates these costs by combining preferred rate discounts net of costs and the negative contribution of

Periodicals (Periodicals Losses). Table IV-4 shows the estimated revenue not received as a result of preferred rate discounts and Periodicals Losses between FY 2015 and FY 2019.

## PREFERRED RATE DISCOUNTS NET OF COSTS

39 U.S.C. § 3626 requires the Postal Service to provide reduced rates for preferred rate categories in USPS Marketing Mail, Periodicals, and Library Mail.<sup>438</sup> The Commission determines estimated revenue not received by quantifying the difference in revenue between mail that is statutorily required to receive a discount and the revenue the Postal Service would have received

if those mailpieces were not discounted. This increase in revenue is adjusted for potential decreases in costs. If not discounted, rates for these mailpieces would be higher, resulting in a loss of volume and, consequently, lower costs. In FY 2019, preferred rate discounts net of costs were \$1.215 billion.

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

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>Preferred Rate Discounts Net of Costs<sup>a</sup></b>	1,215	1,172	1,104	1,105	1,116
<b>Periodicals Losses</b>	671	614	609	537	512
<b>TOTAL</b>	<b>1,886</b>	<b>1,786</b>	<b>1,713</b>	<b>1,642</b>	<b>1,628</b>

<sup>a</sup> The FY 2018 and FY 2019 Preferred Rate Discounts Net of Costs figures include In-County Periodicals. At the time of the USO Report, In-County Periodicals had little impact on the results of that analysis and were not included. See USO Report, Appendix F, Section 3 (Robert H. Cohen and Charles McBride, “Estimates of the Current Costs of the USO in the U.S.” at 18-19, n.20).

## PERIODICALS LOSSES

Periodicals Losses are the annual amount by which Periodicals’ attributable cost exceeds revenue.<sup>439</sup> The PAEA’s price cap does not allow the Postal Service to fully recover Periodicals Losses through rate increases.<sup>440</sup> It is assumed that, if not for the price cap, the Postal Service would raise Periodicals rates to the level necessary to cover attributable cost. Accordingly, the Commission considers these losses to be part of the USO Cost.

Table IV-4 illustrates that although there was some variation year-to-year, Periodicals Losses were about half a billion dollars each year between FY 2015 and FY 2016, and increased from \$614 million in FY 2018 to \$671 million in FY 2019. This shortfall represents 56 percent of Periodicals revenue in FY 2019. Revenue from Periodicals only covered 64 percent of the attributable cost of the Periodicals class.

The Periodicals class has not covered its attributable cost since the PAEA was enacted.<sup>441</sup>

The Commission recently took steps to address this issue by finalizing rules adopting changes to the regulations governing the Market Dominant Rate System.<sup>442</sup> Specifically, for non-compensatory mail classes such as Periodicals, the final rules provide the Postal Service an additional 2 percentage points of rate authority per class per fiscal year.<sup>443</sup> Similar to CPI-based rate authority, if all of this authority is not immediately used it may be banked for use in future years.

Also, in the FY 2019 ACD, the Commission directed the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2020 ACR and include an analysis of how the pricing in Docket No. R2020-1 impacted the cost, contribution, and revenue of Periodicals in FY 2020, and whether the new pricing improved the efficiency of Periodicals pricing in FY 2020.<sup>444</sup>

**Table IV-5: Other Public Services or Activities the Postal Service Would Not Provide But for Legal Requirements (\$ Millions)**

Public Service or Activity	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Six-Day Delivery	2,231	2,259	2,204	2,191	2,074
Uniform First-Class Mail Rates	86	99	52	78	86
Uniform Media Mail/Library Mail Rates	124	97	99	102	101
Postal Inspection Service (Net Cost) <sup>a</sup>	471	462	N/A	N/A	N/A
<b>TOTAL</b>	<b>2,912</b>	<b>2,917</b>	<b>2,355</b>	<b>2,371</b>	<b>2,261</b>

<sup>a</sup> The Commission began including the net cost of the Postal Inspection Service in FY 2018.

## Other Public Services or Activities

The Commission must estimate the costs incurred by the Postal Service in providing “other public services or activities which, in the judgment of the Postal Regulatory Commission, would not otherwise have been provided by the Postal Service but for the requirements of law.”<sup>445</sup> These costs

include the costs of providing Six-Day Delivery (rather than Five-Day Delivery), uniform rates for First-Class Mail and Media Mail/Library Mail, and the net cost of the Postal Inspection Service. Table IV-5 shows the costs of providing these public services or activities from FY 2015 to FY 2019.

### SIX-DAY DELIVERY

Since 1984, appropriations bills have included a provision requiring the Postal Service to continue providing Six-Day Delivery.<sup>446</sup> The cost of providing Six-Day Delivery is measured as the estimated savings the Postal Service would achieve by providing residential delivery service 5 days a week

instead of 6 days a week. Table IV-5 shows the cost of Six-Day rather than Five-Day Delivery from FY 2015 to FY 2019.<sup>447</sup> In FY 2019, the estimated cost of providing Six-Day Delivery was approximately \$2.231 billion, a slight decrease from the estimated FY 2018 cost of \$2.259 billion.

### UNIFORM RATES

Rates for First-Class Mail must be uniform throughout the United States.<sup>448</sup> To determine the cost of uniform First-Class Mail rates, the Commission estimates the increased contribution that the Postal Service would earn if dropship discounts were allowed for workshared First-Class Mail. Table IV-5 shows the estimated cost of uniform First-Class Mail rates. The estimated cost of uniform First-Class Mail rates decreased from \$99 million in FY 2018 to \$86 million in FY 2019.

Media Mail/Library Mail rates must be uniform for mail of the same weight and must not vary with the distance transported.<sup>449</sup> The Commission estimates the cost of the distance component by assuming that without this requirement, Media Mail/Library Mail would provide the unit contribution of Bound Printed Matter, a proxy that does not have this restriction. The Commission estimates the additional unit contribution by determining the

difference between the unit contributions of Bound Printed Matter and Media Mail/Library Mail. Media Mail/Library Mail total volumes are then multiplied by the estimated additional unit contribution to produce an estimate of the total additional contribution if Media Mail/Library Mail rates were not uniform.

## POSTAL INSPECTION SERVICE

In the *FY 2019 Annual Report*, the Commission began including the net cost of the Postal Inspection Service in the estimated cost of the USO as an “other public service or activity” under 39 U.S.C. § 3651(b)(1)(C).<sup>451</sup> The Postal Inspection Service enforces over 200 federal laws that relate to crimes involving the postal system, its employees, and its customers.<sup>452</sup> The mission of the Postal Inspection Service is “to support and protect the [Postal Service] and its employees, infrastructure, and customers; enforce the laws that defend the nation’s mail system from illegal or dangerous use; and ensure public trust in

In FY 2019, the estimated cost of providing uniform Media Mail/Library Mail rates was approximately \$124 million, an increase from the estimated FY 2018 cost of \$97 million. The increase in cost between FY 2018 and FY 2019 was due primarily to a larger decrease in the unit contribution of Media Mail/Library Mail in FY 2019.<sup>450</sup>

mail.”<sup>453</sup> Law enforcement activities of the Postal Inspection Service involve defending the nation’s mail from illegal or dangerous use by, for example, combatting illegal narcotics, mail fraud, and mail and package theft.<sup>454</sup> The costs of the Postal Inspection Service are partially offset by fines collected and restitution, which are subtracted from the total cost to calculate the net cost.

In FY 2019, the net cost of the Postal Inspection Service was approximately \$471 million, a slight increase from the estimated FY 2018 net cost of \$462 million.

## Value of the Postal Monopoly

The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes.<sup>455</sup> The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence.<sup>456</sup> The combined letter and mailbox monopolies are together referred to as the postal monopoly. The Annual Report includes estimates of both the value of the postal monopoly and the value of the mailbox monopoly alone.

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

The value of the mailbox monopoly is estimated based on contestable mail volumes in Periodicals, select USPS Marketing Mail prepared in carrier route sequence, and Parcel Select.<sup>457</sup> Changes

in the volume of contestable mail affect the number of profitable routes the competitor could deliver to and the amount of profit the Postal Service would lose if the competitor captured the contestable mail on those routes.

On October 1, 2019, the Commission initiated a public inquiry in Docket No. PI2020-1 and requested suggestions for modifications and enhancements to the current estimation methodology to account for recent Postal Service data changes as well as for any other aspects of the letter and mailbox monopolies (postal monopoly) estimation methodology.<sup>458</sup> The Commission received six comments from postal stakeholders and is currently considering comments received and the most appropriate revisions to the methodology.<sup>459</sup>

The Commission uses the model described in the USO Report to update current estimates.<sup>460</sup> The model assumes that the competitor will

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

Even with the postal monopoly, competitors still deliver material (e.g., newspapers’ weekly advertising supplements) that might otherwise be sent via the Postal Service. If the mailbox monopoly alone were lifted, competitors could deliver and deposit into mailboxes products that fall outside of the letter monopoly, such as Periodicals, unaddressed saturation mail, catalogs over 24 pages, and letters over 12.5 ounces.

The letter monopoly prevents competitors from delivering certain mail that is directed to a specific person or address, such as First-Class Presorted Letters/Postcards and USPS Marketing Mail Letters. If the letter monopoly were also lifted, this restriction would not apply.

The model currently evaluates the competitor’s entry for each route regardless of the extent of route clustering. Focusing on routes in the same cluster or area would reduce the

competitor’s fixed costs.<sup>461</sup> Also, because the model assumes that the competitor does not incur mail processing costs, values of the postal and mailbox monopolies do not reflect the cost of sorting to carrier routes, which is necessary to deliver mail presorted to the 5-digit ZIP Code. The model also does not account for mailers’ switching costs or brand loyalty.<sup>462</sup> In addition, bulk parcels, which are Competitive products, are considered contestable mail.

Previous Annual Reports presented only estimates of the postal and mailbox monopolies based on the same assumed mid-range (base case model) values for four key variables: (1) the volumes that an entrant could contest; (2) the entrants’ costs; (3) the entrants’ delivery frequency; and (4) the discount that the entrant offers to entice customers. The base case model for calculating both estimates of the postal and mailbox monopolies assumes that an entrant would offer a 10 percent discount, have a 10 percent cost advantage (be 10 percent more efficient), and skim 100 percent of the contestable mail on profitable routes.<sup>463</sup> The FY 2015 through FY 2019 postal and mailbox monopoly estimates calculated using the base case model assumptions are presented in Table IV-6.

**Table IV-6: Base Case Model Values of the Postal and Mailbox Monopolies<sup>464</sup> (\$ Billions)**

	FY 2019 <sup>a</sup>	FY 2018 <sup>a</sup>	FY 2017	FY 2016	FY 2015
<b>Postal Monopoly</b>	4.72	4.53	5.34	5.68	5.45
<b>Mailbox Monopoly</b>	0.94	1.03	1.35	1.24	1.03

<sup>a</sup> FY 2018 and FY 2019 values are not comparable to values from FY 2015 through FY 2017. FY 2019 and FY 2018 values account for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the City Carrier Cost System and the Rural Mail Count and Rural Carrier Cost System. Without these implemented changes to the FY 2019 and FY 2018 monopoly calculation methodology, the postal monopoly estimates for FY 2019 and FY 2018 would be over \$5 billion. The development of the postal and mailbox monopolies estimates for FY 2017 and earlier are consistent with the original methodology that included First-Class Presort Parcels with First-Class Presort Letters and First-Class Presort Flats. City carrier and rural carrier delivered mail volumes were not adjusted to respective fiscal year national estimates.

This year, the Commission also presents the FY 2019 estimates of the postal and mailbox monopolies based on alternative assumed values (“low” and “high” models) for the four key variables (in addition to the assumed base case model mid-range values).<sup>465</sup>

Table IV-7 illustrates the impact on the FY 2019 monopoly estimates given variations in the assumptions of the four key variables: (1) the amount of discount offered by the entrant, (2) the entrant’s cost advantage, (3) the number of delivery days, and (4) the percentage of

contestable mail skimmed on profitable routes.<sup>466</sup> The monopoly estimates calculated using the “low” and “high” values of the four key variables are unlikely to represent the actual value of the monopolies, but may be helpful to conceptualize the lower and upper bounds of reasonable estimates. Given the uncertain nature of how competition would evolve in the absence of the postal and mailbox monopolies, variations in the assumptions are possible. Table IV-7 illustrates the sensitivity of the monopoly estimates to potential changes in the key model input variables’ values.

**Table IV-7: FY 2019 Value of the Postal and Mailbox Monopolies<sup>467</sup> (\$ Billions)**

	Low	Base Case	High
<b>Postal Monopoly</b>	0.18 <sup>a</sup>	4.72 <sup>b</sup>	9.28 <sup>c</sup>
<b>Mailbox Monopoly</b>	0.03 <sup>d</sup>	0.94 <sup>e</sup>	2.02 <sup>f</sup>

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

The estimates of the postal and mailbox monopolies were also developed using the low and high model assumptions that were last calculated in 2008 when the USO Report was issued.<sup>468</sup> In the USO Report, the mid-range values of the base case model were believed to be realistic ranges for the four key model input variables.<sup>469</sup> As compared to the postal monopoly estimates in the USO Report, the largest dollar change in the estimated FY 2019 postal monopoly values are in the “high” model estimates (\$7.10 billion in the USO Report versus \$9.28 billion in FY 2019) and the base case model estimates (\$3.43 billion in the USO Report versus \$4.72

billion in FY 2019).<sup>470</sup> Increases in the amount of USPS Marketing Mail 5-digit automation letters entered at destination Sectional Center Facilities since the USO Report was issued contributed to the larger postal monopoly estimates using the base case model and “high” model assumptions in FY 2019.

As compared to the mailbox monopoly estimates in the USO Report, the FY 2019 estimates were lower for all key variable assumption scenarios due to decreases in the total amount of contestable USPS Marketing Mail Enhanced Carrier Route mail since the USO Report was issued.<sup>471</sup>



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

## Consumer Relations — Comments and Inquiries

### Inquiries by Source

In Fiscal Year 2020, PAGR received a total of 6,435 comments and inquiries. The greatest portion of inquiries, questions, suggestions, and comments were received by phone and through the online “Contact PRC” link on the Commission’s website. The remaining correspondence was submitted by fax, email, and hardcopy mail.

Quarter	1	2	3	4	TOTAL
Contact	2,036	941	1,176	2,282	6,435
Email	1,936	835	1,013	2,142	5,926
Phone	58	71	99	99	327
Letters	42	35	64	41	182



Commission Order No. 195 directs the Postal Service to respond to rate and service inquiries forwarded to its Office of the Consumer Advocate within 45 days. The order also requires the

Postal Service to file a monthly report summarizing the general nature of these inquiries. The reports are available on the Commission’s website.

## Inquiries by Issue

Consistent with the prior reporting, missing packages, delayed, misdelivered, and undelivered mail remain the leading complaint types. There was also a slight increase in inquires related to collection box schedules.

## Inquiries by Location

In FY 2020, the Postal Service was separated geographically by 7 area offices, and 70 district offices. A review of the inquiries referred to the Postal Service for escalated resolution revealed that an above average number originated in the Greater Indiana, Chicago, Capital, and Gulf Atlantic Districts.

Top Issue	Count
Collection Box Schedule	44
Delayed Mail	38
Missing Packages	31
Misdelivered Mail	20
Undelivered Mail	17
Employee Behavior	15
Retail Lobby	14
Mailbox Requirement	14
Missing Mail	14
Carrier Suspended Delivery	11

District	Number Received	Top Issue
Greater Indiana	35	Collection Box Schedule
Chicago	29	Collection Box Schedule
Capital	23	Missing Packages
Gulf Atlantic	19	Carrier not delivering mail
Atlanta	14	Delayed Packages
Lakeland	14	Collection Box Schedule
Colorado/Wyoming	12	Carrier not delivering mail
South Florida	11	Carrier suspended delivery
Triboro	11	Misdelivered Mail
Northern New Jersey	10	Carrier not delivering mail

## CHAPTER VI | Administration



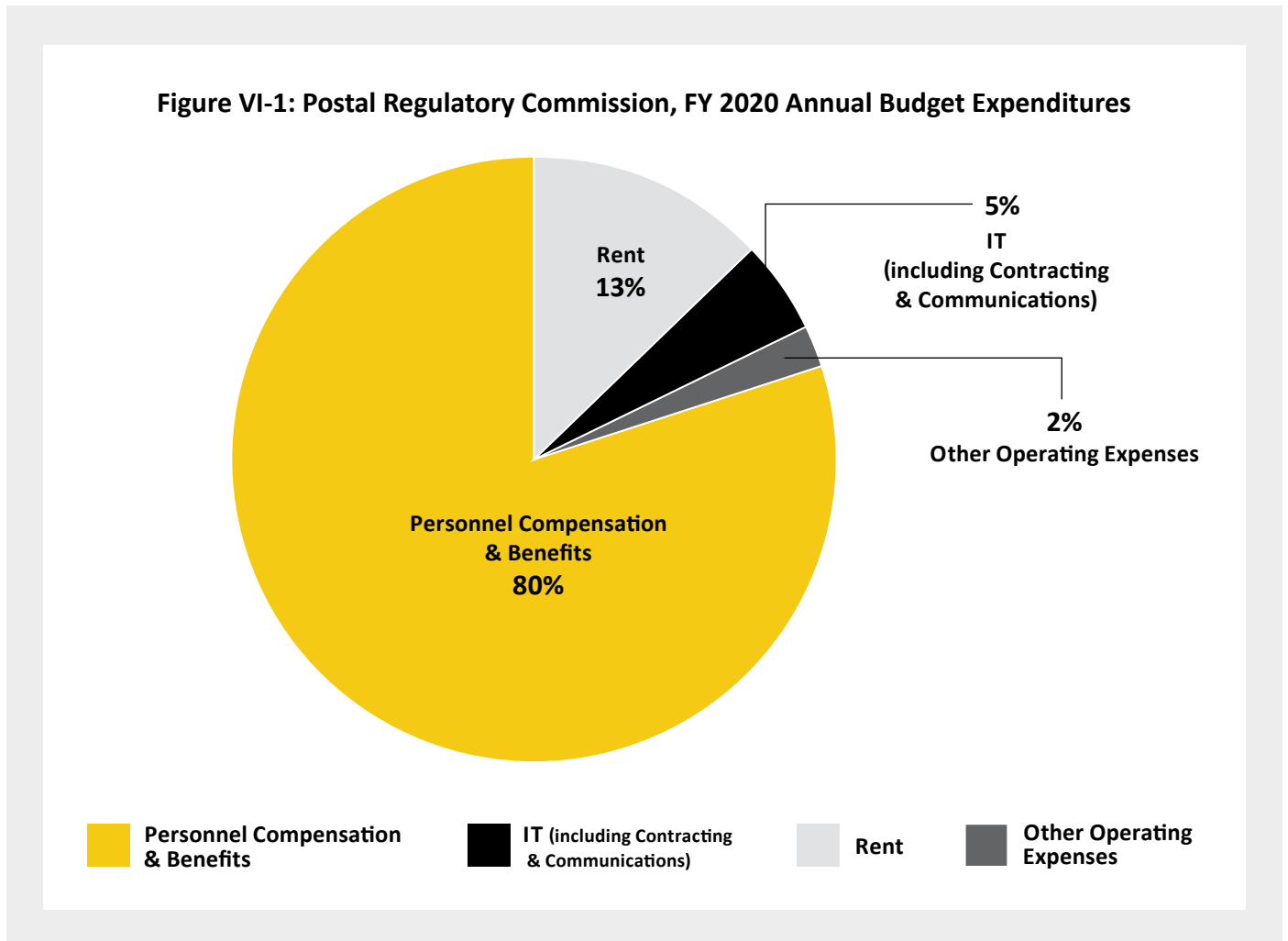
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*The Office of the Secretary and Administration (OSA) ensures that the Commission has the physical, financial, technological, and human capital infrastructure needed to accomplish its mission. The work of OSA is directly tied to the Commission's Strategic Plan, particularly to Goal 3 (provide an optimal internal infrastructure to support management of priorities, workload, and emerging requirements) and Goal 4 (recruit, develop, and retain a diverse, high-performing workforce). Responsibilities include financial management, records management, human resources management, information technology, equal employment opportunity, and administrative support.*

## Financial Management

The Commission continues to cost-effectively and efficiently work within its budget. The Commission's FY 2020 appropriation was \$16,615,000. In FY 2020, personnel compensation accounted for 80 percent of expenditures, rent accounted for 13 percent

of expenditures, and the remaining 7 percent of expenditures was for all other operating expenses including IT and communications. Figure VI-1 below shows the distribution of the Commission's expenditures for FY 2020.



## Records Management

In FY 2020, the Commission was committed to transparency, accountability, and open government through the administration of its records management program, including docketing, FOIA, and data governance. The Commission hosted a technical conference via video conferencing during the pandemic and posted

the audio recording on the Commission's website, [www.prc.gov](http://www.prc.gov).

During the course of FY 2020, the Commission opened and reviewed 570 new dockets — an almost 25 percent increase over last year's total — and processed 3,691 documents. FOIA requests are now primarily handled by the Office of the

General Counsel; all FOIA requests received responses within statutory deadlines in FY 2020.

The Commission is in the process of developing a new electronic document system and implementing updated policies, which include aligning temporary and permanent electronic

records with approved records schedules. Records management and data governance is of heightened importance in a remote work environment, so training for staff is under review, as is the Commission's oversight of privacy issues.

## Human Resources Management

The Commission's workforce is its primary asset, and Goal 4 of the 2017-2022 *Strategic Plan* affirms its commitment to enhancing a system that fosters recruitment, development, and retention of a talented, skilled, diverse, and adaptable workforce.

The Commission offers a flexible workplace, and provides the ability for employees to participate in its Alternative Work Schedule program and Telework program. During FY 2020, thirty-five percent of Commission staff participated in the Alternative Work Schedule program. Both situational and ad-hoc telework are integral parts of the Commission's continuity of operations plan to ensure the Commission's continued functioning during government closure or delay. Prior to the pandemic declaration in

mid-March of 2020, 26 percent of Commission staff participated in situational telework, and a majority — 60 percent — teleworked on a regularly scheduled basis. After the pandemic declaration, the Commission converted quickly — within a week — to 100 percent telework, and staff continued to work remotely, and effectively, throughout the fiscal year.

The Federal Employee Viewpoint Survey (FEVS) was developed by OPM to gauge how employees feel about their work environment. Although the results of the FY 2020 FEVS have been delayed due to the impact of the pandemic, the Commission has received high overall Employee Engagement Index scores and consistently shown that the employees rank the Commission as one of the best place to work in the Federal government.

## Equal Employment Opportunity and Diversity

In FY 2020, the Commission continued its commitment to equal employment opportunity (EEO) in its initiatives to recruit, develop, and retain a skilled, high-achieving, and diverse workforce. Women and minorities accounted for 57 percent and 32 percent, respectively, of its workforce. Women filled 43 percent of the agency's executive positions. In FY 2020, the Commission also established a Diversity & Inclusion Committee, whose mission is to

support the Commission's commitment to equal opportunity employment, facilitate the development and advancement of women and minorities, increase awareness of the diverse communities represented at the Commission, and provide events and activities that support the goal of a diverse and inclusive community. Over the course of FY 2020, the Commission had zero EEO complaints (formal and informal) filed.

## Information Technology

In response to new and emerging security threats, the Commission is enhancing its security practices and policies to better protect sensitive information, as well as to educate employees about the importance of safeguarding the Commission's IT infrastructure, applications, and data. During FY 2020, the Commission hired a new cybersecurity manager, who then initiated a security assessment of the agency's general support system. Going forward, the Commission will prioritize and address these security findings, specifically focusing on high-risk areas of concern, and will take the appropriate steps to improve the Commission's security program. This assessment will also inform the Commission's privacy program development.

The Commission is pleased to report that during FY 2020, there were no major security incidents to report nor any major incidents related to personally identifiable information (PII). In addition, the Commission updated and improved its Continuity of Operations Plan and developed a Pandemic Response Plan in response to the impact of the COVID-19 pandemic; both plans were created to ensure the continuity of the



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Commission's essential functions across a wide range of potential emergencies. The Commission continues to collaborate with the Department of Homeland Security (DHS) to identify and address risks, and to improve its cybersecurity posture.

# Endnotes

- 1 Postal Rate Commission, *Report to the Congress: 1998 International Mail Volumes, Costs and Revenues*, June 30, 1999, available at: <https://www.prc.gov/docs/9/9372/redactedreport.pdf> (accessed January 7, 2021).
- 2 This number does not include amendments or modifications to existing NSAs.
- 3 Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).
- 4 39 U.S.C. § 3651(a).
- 5 39 U.S.C. § 3642(b)(1). “Product” means “a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied[.]” *Id.* § 102(6).
- 6 39 U.S.C. § 3642(b)(1). Market Dominant products are grouped within 5 classes of mail: First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services. *Id.* § 3621(a).
- 7 39 U.S.C. § 3642(b)(1). Examples of Competitive products include Priority Mail, Priority Mail Express, and First-Class Package Service.
- 8 39 U.S.C. § 3622(b).
- 9 Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43); see Docket No. RM2007-1, Errata Notice Concerning Order No. 43, October 31, 2007.
- 10 39 U.S.C. § 3651(a).
- 11 39 U.S.C. § 3622(d)(3).
- 12 Docket No. RM2017-3, Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 20, 2016 (Order No. 3673).
- 13 Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017 (Order No. 4257). This order was appealed to the United States Court of Appeals for the District of Columbia. See “Court of Appeals Cases” section below.
- 14 Order No. 4257 at 17.
- 15 *Id.* at 22-23.
- 16 *Id.* at 3-4.
- 17 *Id.* at 48.
- 18 *Id.* at 148.
- 19 *Id.* at 248.
- 20 *Id.* at 4-5, 250.
- 21 Docket No. RM2017-3, Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, December 1, 2017 Order No. 4258).
- 22 Order No. 4258 at 34.
- 23 *Id.* at 38-45, 46-73.
- 24 *Id.* at 76-77, 84-85. Non-compensatory products do not cover their attributable costs.
- 25 *Id.* at 93-96. Passthroughs represent the relationship between the amount of the workshare discount and the avoided cost as a percentage. A workshare discount’s passthrough percentage is determined by dividing the workshare discount by costs avoided and expressing the result as a percentage.
- 26 *Id.* at 27, 98-106.
- 27 Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019 (Order No. 5337).
- 28 Order No. 5337 at 11. The revised rules are discussed in the *FY 2019 Annual Report*. Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2019*, January 21, 2020, at 17-18 (*FY 2019 Annual Report*).
- 29 Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763).
- 30 Order No. 5763 at 72-73.
- 31 *Id.* at 100-101. By calculating the retirement-based rate authority as a percentage of total revenue (as opposed to as a percentage of Market Dominant revenue), the mechanism does not burden users of Market Dominant products with the entire amount of the retirement amortization payments. Order No. 5337 at 93. Revenue generated by this mechanism must be applied to amortization payments as computed by the Office of Personnel Management.
- 32 *Id.* at 95-96.
- 33 Order No. 5763 at 100.
- 34 *Id.* at 21.
- 35 *Id.* Specifically, when filing the *Annual Compliance Report*, the Postal Service must “provide the input data and calculations used to produce the annual [Total Factor Productivity] estimates, and provide a description of and reason for any changes to the service standards (including relevant business rules), or certify that no changes have occurred.” *Id.*
- 36 *Id.* at 159-160, 190-191.
- 37 *Id.* at 196.
- 38 *Id.* at 182.
- 39 *Id.* at 186.
- 40 *Id.* at 198.
- 41 *Id.* at 19.
- 42 *Id.* Specifically, a low workshare discount or an excessive workshare discount would be permitted if it were new, if it would represent an improvement of 20 percent over the existing workshare discount passthrough, or if it were set in accordance with a prior Commission order (via the proposed waiver process). *Id.* at 199. A low workshare discount would also be permitted if the proposed workshare discount would produce a passthrough of at least 85 percent. *Id.* Additionally, an excessive workshare discount would be permitted if it were provided in connection with a subclass of mail (product), consisting exclusively of mail matter of educational, cultural, scientific, or informational value (39 U.S.C. § 3622(e)(2)(C)) and accompanied by certain information to ensure transparency. *Id.*
- 43 *Id.* at 200.
- 44 *Id.* at 228.
- 45 *Id.*
- 46 *Id.* at 24, 265.
- 47 *Id.* at 242.
- 48 *Id.* at 242-244.
- 49 *Id.* at 23, 267.
- 50 *Id.* at 267.
- 51 Docket No. RM2019-13, Notice of Proposed Rulemaking to Amend the Commission’s Rules of Practice and Procedure and to Reorganize its Regulations in the Code of Federal Regulations, September 13, 2019 (Order No. 5229).
- 52 Order No. 5229 at 10.

53 *Id.* at 12-13.  
54 *Id.* at 13-14.  
55 *Id.* at 14-15.  
56 *Id.* at 15.  
57 *Id.* at 20, 41, and 45.  
58 *Id.* at 15-16.  
59 *Id.* at 16-17.  
60 *Id.* at 18.  
61 Docket No. RM2019-13, Order Reorganizing Commission Regulations and Amending Rules of Practice, January 16, 2020 (Order No. 5407); see Notice of Errata, April 23, 2020.  
62 Postal Regulatory Commission, Reorganization of Postal Regulatory Commission Rules, 85 Fed. Reg. 9614 (February 19, 2020).  
63 Docket No. RM2020-5, Notice of Proposed Rulemaking to Amend Rules Regarding Rate Incentives for Market Dominant Products, February 14, 2020 (Order No. 5433).  
64 Order No. 5433 at 2.  
65 39 C.F.R. §§ 3030.501(g), 3030.523(e)(2)(iii). The other requirements are that the rate incentive is in the form of a discount or can be easily translated into a discount and that sufficient billing determinants are available for the rate incentive to be included in the percentage change in rate calculation. *Id.* § 3030.523(e)(2).  
66 Order No. 5433 at 1, 8.  
67 *Id.* at 1-2, 8.  
68 *Id.*  
69 Docket No. RM2020-5, Order Adopting Final Rules Regarding Rate Incentives for Market Dominant Products, May 15, 2020 (Order No. 5510).  
70 Petition for Review, *United States Postal Service v. Postal Reg. Comm'n*, No. 20-1208 (D.C. Cir. filed June 15, 2020).  
71 Petitioner's Statement of Issues to be Raised, *United States Postal Service v. Postal Reg. Comm'n*, No. 20-1208, at 2 (D.C. Cir. filed July 16, 2020).  
72 Docket No. RM2020-5, Notice of Intent to Reconsider, August 26, 2020 (Order No. 5655).  
73 Order No. 5655 at 2.  
74 *Id.*  
75 *Id.*  
76 *Id.*  
77 *Id.*  
78 Joint Motion for Voluntary Dismissal and Vacatur, *United States Postal Service v. Postal Reg. Comm'n*, No. 20-1208 (D.C. Cir. filed Sept. 11, 2020).  
79 Docket No. RM2020-4, Advance Notice of Proposed Rulemaking to Consider Regulations to Carry Out the Statutory Requirements of 39 U.S.C. 601, February 7, 2020 (Order No. 5422).  
80 See Private Express Statutes, 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.  
81 Order No. 5422 at 2.  
82 39 U.S.C. § 601(c).  
83 Order No. 5422 at 4, 7-8.  
84 Docket No. RM2020-3, Notice of Proposed Rulemaking to Amend Procedures Related to Commission Views, December 17, 2019 (Order No. 5353).  
85 39 U.S.C. § 407(c).  
86 Order No. 5353 at 3.  
87 Docket No. RM2020-3, Order Adopting Final Rules Related to Commission views, February 24, 2020 (Order No. 5439).  
88 39 U.S.C. § 3642(a), (d)(2); 39 C.F.R. § 3040.103.  
89 39 U.S.C. § 3642(d)(2); 39 C.F.R. § 3040.103.  
90 Docket No. RM2020-8, Notice of Update to Product Lists, April 16, 2020, at 1. The Commission previously published the product list updates in Docket Nos. MC2010-21 and CP2010-36. *Id.* at 1-2.  
91 *Id.* at 2.  
92 *Id.*  
93 *Id.*  
94 *Id.* at 3; see Mail Classification Schedule (MCS), available at: <https://www.prc.gov/mail-classification-schedule> (accessed November 9, 2020).  
95 Docket No. RM2019-15, Order Proposing Final Rules Relating to the Freedom of Information Act, September 27, 2019 (Order No. 5257).  
96 Order No. 5257 at 3.  
97 *Id.* at 4. The proposed revisions were published in the Federal Register on October 4, 2019. Freedom of Information Act, 84 Fed. Reg. 53056 (October 4, 2019) (to be codified at 39 C.F.R. part 3004).  
98 39 U.S.C. § 3652(a)(1).  
99 *Id.* § 3652(a)(2), (b), (c).  
100 *Id.* § 3652(a).  
101 These reports are on the Commission's website, available at: <https://www.prc.gov/prc-reports>.  
102 39 U.S.C. § 3653(a), (b).  
103 Docket No. ACR2019, *Annual Compliance Determination Report* Fiscal Year 2019, March 25, 2020 (FY 2019 ACD).  
104 39 U.S.C. § 3622(d)(2)(A), 3622(e)(2), and 3626; FY 2019 ACD at 12.  
105 FY 2019 ACD at 12.  
106 *Id.* at 1. 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. *Id.* at 12. These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. *Id.*  
107 *Id.* at 1.  
108 *Id.* at 2.  
109 *Id.* The Periodicals Pricing Report analyzes how pricing decisions impact cost, contribution, and revenue. Docket No. ACR2015, *Annual Compliance Determination Report* Fiscal Year 2015, March 28, 2016, at 23-24.  
110 FY 2019 ACD at 2, 32.  
111 *Id.* at 32.  
112 *Id.* at 43, 46.  
113 *Id.* at 52.  
114 *Id.*  
115 *Id.* at 3. The UPU consists of 192 member countries, including the United States, that negotiate international agreements governing the exchange of international mail, including applicable rates for delivery. *Id.* at 52 n. 94.  
116 *Id.* at 66.  
117 *Id.*  
118 *Id.* at 67.

119 *Id.* at 70.

120 *Id.* These products were two domestic negotiated service agreements (NSAs), International Priority Airmail, International Money Transfer Service—Inbound, Royal Mail Group Inbound Air Parcel Post Agreement, and Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1. *Id.*

121 *Id.* at 4.

122 *Id.* at 91.

123 *Id.* at 91-92.

124 *Id.* at 94.

125 *Id.* at 117.

126 *Id.* at 4.

127 *Id.*

128 *Id.* at 5.

129 *Id.* at 5, 160.

130 *Id.* at 175.

131 For example, the Commission recommended that “the Postal Service establish a specific plan to achieve its productivity targets for each flat-shaped mail processing machine, and continue to provide estimates of the impact of changing productivities on the mail processing costs of flat-shaped mail products in FY 2020.” *Id.* at 168-169.

132 Docket No. ACR2019, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2019, May 7, 2020 (FY 2019 Financial Analysis).

133 FY 2019 Financial Analysis at 2.

134 *Id.* at 2, 5. This decline was mostly driven by an increase in the non-cash adjustment to the workers’ compensation expense due to a lower discount rate. *Id.* at 2.

135 *Id.*

136 *Id.*

137 *Id.* at 5.

138 *Id.* at 3.

139 *Id.* at 5.

140 *Id.* at 3. At the end of FY 2019, the Postal Service reported \$25.6 billion in total assets and \$97.2 billion in total liabilities. *Id.*

141 *Id.* at 4.

142 *Id.*

143 Postal Service FY 2019 Form 10-K at 52.

144 *Id.* at 39.

145 *Id.*

146 *Id.*

147 FY 2019 Financial Analysis at 5.

148 *Id.* at 6.

149 *Id.*

150 *Id.*

151 39 U.S.C. § 3653(d).

152 *Id.*

153 Docket No. ACR2019, *Analysis of the Postal Service’s FY 2019 Annual Performance Report and FY 2020 Performance Plan*, June 1, 2020 (FY 2019 Analysis).

154 FY 2019 Analysis at 7-21.

155 *Id.* at 9.

156 *Id.* at 9-11.

157 *Id.* at 9, 15-16.

158 *Id.* at 23. The Postal Service partially met the Excellent Customer Experiences and Safe Workplace and Engaged Workforce performance goals, but did not meet the High-Quality Service and Financial Health performance goals. *Id.*

159 *Id.* at 24-97.

160 39 C.F.R. § 3010.101(q).

161 39 C.F.R. § 3010.101(f).

162 *Id.*

163 *Id.*

164 39 U.S.C. § 3622(d)(1)(A), (d)(2)(A).

165 39 U.S.C. § 3622(e)(2).

166 39 U.S.C. §§ 3626, 3627, 3629.

167 Docket No. R2020-1, United States Postal Service Notice of Market-Dominant Price Change, October 9, 2019.

168 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 (Order No. 5321).

169 Docket No. R2020-1, Order Remanding Price Adjustments for First-Class Mail, November 13, 2019, at 2 (Order No. 5302). The Commission found that the Postal Service made impermissible adjustments to the billing determinants related to Inbound Letter Post. Order No. 5302 at 2. As a result, the Postal Service incorrectly calculated the percentage change in rates for First-Class Mail to be 1.926 percent. *Id.* Using the Postal Service’s planned First-Class Mail prices, the Commission calculated the proposed percentage change in rates to be 2.109 percent, which exceeded the total price adjustment authority of 1.933 percent. *Id.*

170 Docket No. R2020-1, United States Postal Service Response to Order No. 5302, November 20, 2019.

171 Docket No. R2020-1, Order on Amended Price Adjustments and Classification Changes for First-Class Mail, December 6, 2019 (Order No. 5340).

172 Order No. 5340 at 3-4. These issues include consistency with the PAEA’s objectives and factors, billing determinant adjustments, unused rate adjustment authority for First-Class Mail, the Postal Service’s request to accelerate the transfer of certain international mail products, and comments received. *Id.*

173 Docket No. R2020-1, Order Approving Price Adjustments and Related Mail Classification Changes for First-Class Mail, December 20, 2019, at 2, 65 (Order No. 5373).

174 Docket No. R2020-2, United States Postal Service Notice of Type 1-C Market Dominant Price Change, June 1, 2020.

175 “Every Door Direct Mail,” United States Postal Service, Glossary of Postal Terms (Publication 32), July 2013; available at: [https://about.usps.com/publications/pub32/pub32\\_terms.htm](https://about.usps.com/publications/pub32/pub32_terms.htm) (Glossary of Postal Terms).

176 Docket No. R2020-2, Order on Price Adjustments for USPS Marketing Mail, June 30, 2020, at 1-2 (Order No. 5570).

177 39 C.F.R. § 3010.101(f).

178 39 U.S.C. § 3633(a)(1).

179 39 U.S.C. §§ 3633(a)(2), 3631(b).



180 39 U.S.C. § 3633(a)(3).

181 Docket No. CP2020-5, United States Postal Service Notice of Changes in Rates of General Applicability for Competitive Products, October 9, 2019.

182 Docket No. CP2020-5, Order Approving Price Adjustments for Competitive Products, November 15, 2019, at 6-7 (Order No. 5308).

183 Docket No. CP2020-249, USPS Notice of Time-Limited Changes in Rates of General Applicability for Competitive Products, August 14, 2020 (Docket No. CP2020-249 Notice).

184 Docket No. CP2020-249 Notice at 1.

185 *Id.*

186 Docket No. CP2020-249, Order Approving Price Adjustments for Competitive Products, September 4, 2020, at 6-7 (Order No. 5673).

187 Docket No. CP2020-166, United States Postal Service Notice of Changes in Rates of General Applicability for Loyalty Program, June 5, 2020.

188 Docket No. CP2020-166, Order Approving Price Adjustments for Competitive Products to Implement a Loyalty Program, June 24, 2020 (Order No. 5561).

189 Order No. 5561 at 1.

190 Docket Nos. MC2020-156 and CP2020-170, Order Adding Priority Mail-Non-Published Rates 2 to the Competitive Product List, June 25, 2020 (Order No. 5562).

191 Available at: [www.prc.gov](http://www.prc.gov); hover over “References” and click on the “Negotiated Service Agreements Statistics” link.

192 Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2017*, January 26, 2018, at 36.

193 Universal Postal Union, Regulations to the Convention, Article 32-201, Bern 2017, available at: <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/nonPermanentActs/actNonPermanentRegulationsConventionFinalProtocolEn.pdf>.

194 *Id.* Article 32-202.

195 Docket No. CP2020-61, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), and Application for Non-Public Treatment, December 10, 2019; Docket No. CP2020-176, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), and Application for Non-public Treatment, June 12, 2020.

196 Docket No. CP2020-61, Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), December 31, 2019 (Order No. 5385); Docket No. CP2020-176, Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), June 25, 2020 (Order No. 5564).

197 Docket No. CP2020-250, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound EMS 2, and Application for Non-Public Treatment, August 14, 2020; Docket No. CP2020-250, Order Approving Changes in Prices Not of General Applicability for Inbound EMS 2, August 28, 2020, at 2 (Order No. 5660).

198 Order No. 5660 at 7.

199 See “Changes to Product Lists and the Mail Classification Schedule — International Mail” section, below.

200 39 U.S.C. § 3634; 39 C.F.R. § 3060.40, et seq.

201 Docket No. T2020-1, Notice of the United States Postal Service of Submission of the Calculation of the FY 2019 Assumed Federal Income Tax on Competitive Products, January 10, 2020.

202 Docket No. T2020-1, Order Approving the Calculation of the FY 2019 Assumed Federal Income Tax on Competitive Products, March 9, 2020 (Order No. 5449).

203 39 U.S.C. § 3642(a). The Commission may also initiate a proceeding to change the product lists. *Id.*

204 39 C.F.R. part 3040, subparts B, C, and D.

205 39 C.F.R. part 3040, subparts E and F.

206 39 C.F.R. part 3040, subpart E; Docket No. RM2015-6, Notice of Proposed Rulemaking on Changes and Corrections to the Mail Classification Schedule, November 14, 2014, at 9, 14 (Order No. 2250).

207 Docket No. MC2019-203, Order Approving Minor Classification Change, October 2, 2019 (Order No. 5261); Docket No. MC2020-7, Order Approving Minor Classification Changes, November 8, 2019 (Order No. 5297); Docket No. MC2020-8, Order Approving Minor Changes to a Product Description, November 8, 2019 (Order No. 5298); Docket No. MC2020-27, Order Approving Minor Classification Change, December 4, 2019 (Order No. 5331).

208 Product list and MCS changes applicable to rate changes and NSAs are discussed in the “Rate Adjustments” section above.

209 Docket No. MC2015-8, Renewed Request of the United States Postal Service to Remove Return Receipt for Merchandise and Motion to Reopen Docket, December 10, 2019 (Docket No. MC2015-8 RRM Service Renewed Request).

210 Docket No. MC2015-8, Request of the United States Postal Service to Remove Return Receipt for Merchandise Service from the Mail Classification Schedule, November 17, 2014, at 2.

211 *Id.*

212 Docket No. MC2015-8, Order Conditionally Approving Removal of Return Receipt for Merchandise Service from Mail Classification Schedule, January 15, 2015, at 13-14 (Order No. 2322).

213 Order No. 2322 at 14. The Commission stated the Postal Service could either: (1) remove RRM service from the MCS, which would result in a Special Services rate increase, or (2) retain RRM service with no impact on the price cap. *Id.*

214 Docket No. MC2015-8, Response of the United States Postal Service to Order No. 2322, January 28, 2015. The procedural history of this docket is described in Order No. 5408. Docket No. MC2015-8, Order Approving Removal of Return Receipt for Merchandise Service from Mail Classification Schedule, January 16, 2020, at 2-3 (Order No. 5408).

215 *United States Postal Service v. Postal Reg. Comm’n*, 886 F.3d 1261, 1268-1269 (D.C. Circ. 2018).

216 886 F.3d at 1268-1269.

217 Docket Nos. MC2015-8 and MC2015-8R, Order Closing Dockets, August 29, 2019, at 3 (Order No. 5214).

218 *Id.*

219 Docket No. MC2015-8 RRM Service Renewed Request at 3.

220 *Id.*

221 Order No. 5408 at 5-6.

222 Docket No. MC2020-126, Request of the United States Postal Service to Remove Customized Postage From the Mail Classification Schedule, May 1, 2020 (Docket No. MC2020-126 Customized Postage Request).

223 Docket No. MC2020-126 Customized Postage Request at 1.

224 *Id.* at 2.

225 Docket No. MC2020-126, Order Approving Removal of Customized Postage from Mail Classification Schedule, June 16, 2020 (Order No. 5550).

226 Order No. 5550 at 5.

227 *Id.* at 7.

228 *Id.* at 8.

229 Docket No. MC2020-73, United States Postal Service Request to Transfer the Inbound Market Dominant Express Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, Inbound Market Dominant PRIME Tracked Service Agreement, Australian Postal Corporation — United States Postal Service Bilateral Agreement, and Canada Post Corporation — United States Postal Service Bilateral Agreement to the Competitive Product List, December 13, 2019 (Docket No. MC2020-73 Request).

230 Docket No. MC2020-73 Request at 2-3. This product provides prices for acceptance, transportation within the United States, and delivery of a combination of international mail products. MCS § 2510.1.a.

231 Docket No. MC2020-73, Order Approving Transfer of Market Dominant Negotiated Service Agreements to the Competitive Product List, February 19, 2020, at 8 (Order No. 5437).

232 Order No. 5437 at 9-10.

233 Docket No. ACR2017, *Annual Compliance Determination Report* Fiscal Year 2017, March 29, 2018, at 65 (FY 2017 ACD). Inbound Letter Post mailpieces include letters, postcards, printed papers, and small packets weighing up to 2 kilograms. Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019, at 2 (Order No. 4980).

234 Universal Postal Union, Convention Manual, Article 17.5, Bern 2019 (June 2019), available at: <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/manualsinThreeVolumes/actinThreeVolumesManualOfConventionMaj1En.pdf>.

235 FY 2017 ACD at 65.

236 See, e.g., Order No. 4980 at 3; Docket No. ACR2018, Order Issuing the Determination to Unseal Library Reference PRC-LR-ACR2018-NP3, July 12, 2019, at 4-5 (Order No. 5151).

237 Presidential Memorandum for the Secretary of State, Secretary of the Treasury, Secretary of Homeland Security, Postmaster General, and Chairman of the Postal Regulatory Commission, "Modernizing the Monetary Reimbursement Model for the Delivery of Goods Through the International Postal System and Enhancing the Security and Safety of International Mail," August 23, 2018, available at: <https://www.whitehouse.gov/presidential-actions/presidential-memorandum-secretary-state-secretary-treasury-secretary-homeland-security-postmaster-general-chairman-postal-regulatory-commission/>.

238 Statement from the Press Secretary, October 17, 2018, available at: <http://www.whitehouse.gov/briefings-statements/statement-press-secretary-38/> (Press Secretary Statement).

239 Press Secretary Statement. Self-declared rates are set by the Postal Service instead of the UPU.

240 *Id.*

241 Docket No. CP2019-155, Notice of the United States Postal Service of Effective Date and Specific Rates Not of General Applicability for Inbound E-Format Letter Post, and Application for Non-Public Treatment, October 29, 2019, at 4 (Docket No. CP2019-155 Notice).

242 *FY 2019 Annual Report* at 40. The *FY 2019 Annual Report* provides further details about the Presidential Memorandum, the Third Extraordinary Congress, and other events leading to the favorable outcome allowing postal operators to self-declare rates for the delivery of small packets. *Id.* at 39-40.

243 Docket No. CP2019-155 Notice at 1. The Postal Service initially proposed a range of rates for this product on May 20, 2019, which the Commission approved. Docket No. CP2019-155, Order Approving Range of Rates for Inbound Letter Post Small Packets and Bulky Letters and Associated International Registered Mail Service, July 12, 2019, at 1 (Order No. 5152).

244 Docket No. MC2019-17, Motion of the United States Postal Service to Effectuate Transfer on January 1, 2020, and Application for Non-Public Treatment, November 20, 2019, at 5. The Postal Service had filed this request in FY 2019, which Commission conditionally approved pending the proposal, review, approval, and implementation of new rates. Order No. 4980 at 23.

245 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).

246 *Id.* at 2, 15, 18.

247 Docket No. CP2019-155 Notice at 7-8, Attachment 1.

248 Docket Nos. MC2019-17 and CP2019-155, Final Determination to Unseal Self-Declared Rates for Inbound Letter Post Small Packets and Bulky Letters, March 9, 2020 (Order No. 5451).

249 Order No. 5451 at 34.

250 *Id.*

251 Order No. 5451 at 2, 35; Docket Nos. MC2019-17 and CP2019-155, Notice of the United States Postal Service in Compliance with Order No. 5451, April 6, 2020.

252 Docket No. CP2020-120, Notice of the United States Postal Service of Specific Rates Not of General Applicability for Inbound E-Format Letter Post for 2021, and Application for Non-Public Treatment, April 10, 2020 (Docket No. CP2020-120 Notice).

253 Docket No. CP2020-120 Notice at 4, Attachment 1.

254 Docket No. CP2020-120, Order Approving Prices for Inbound Letter Post Small Packets and Bulky Letters and Acknowledging Prices for Inbound Competitive International Registered Mail Service, May 8, 2020, at 1, 7, 9 (Order No. 5502).

255 Docket No. CP2020-120, Final Determination to Unseal Self-Declared Rates for Inbound Letter Post Small Packets and Bulky Letters, June 3, 2020, at 18 (Order No. 5527).

256 Docket No. CP2020-120, Notice of the United States Postal Service in Compliance with Order No. 5527, July 20, 2020.

257 Order No. 4257 at 250.

258 Docket No. PI2015-1, Order Approving Use of Internal Measurement Systems, July 5, 2018 (Order No. 4697); Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771). Past measurement systems are discussed in the FY 2019 ACD. FY 2019 ACD at 92-93.

259 Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872); Docket No. PI2019-1, Order Conditionally Authorizing the Postal Service to Proceed with Changes to its Market Dominant Service Performance Measurement Systems, July 17, 2019 (Order No. 5157). These modifications are discussed in the *FY 2019 Annual Report*. *FY 2019 Annual Report* at 32.

260 Docket No. PI2019-1, United States Postal Service Request for Final Approval of Service Performance Measurement System Modifications for International First Class Mail Service and Return Receipt Service, June 12, 2020 (Docket No. PI2019-1 Request).

261 Docket No. PI2019-1 Request at 2-3.

262 Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020, at 10 (Order No. 5576).

263 Order No. 5576 at 2.

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

265 See "Chapter IV - Value of the Postal Monopoly" section below; *FY 2019 Annual Report* at 50-51.

266 See Private Express Statutes, 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.

267 18 U.S.C. § 1725.

268 See Order No. 5260.

269 See "Chapter IV - Value of the Postal Monopoly" section below; *FY 2019 Annual Report* at 50.

270 Order No. 5260 at 1-2.

271 Docket No. PI2017-1, Notice and Order Establishing Docket Concerning City Carrier Special Purpose and Letter Route Costs and to Seek Public Comment, May 31, 2017 (Order No. 3926).

272 Docket No. PI2017-1, Interim Order, November 2, 2018, at 5 (Order No. 4869).

273 *Id.* at 2-5.

274 *Id.* at 1, 16.

275 *Id.* at 1, 16-17.

276 39 C.F.R. § 3050.1(c).

277 39 C.F.R. §§ 3050.1(a), 3050.10.

278 39 C.F.R. § 3050.11(a). The Commission, acting on its own behalf, may also initiate a proceeding to change an accepted analytical principle. *Id.*

279 *Id.*

280 Docket No. RM2019-6, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), June 21, 2019 (Docket No. RM2019-6 Petition). City carrier costs are developed in the Cost and Revenue Analysis for two route groups: (1) regular letter routes and (2) SPRs, which “are generally located in dense urban areas and primarily deliver parcels and collect mail from collection boxes.” Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2018*, January 10, 2019, at 35 n.196.

281 Docket No. RM2019-6 Petition, Proposal One at 2-3.

282 *Id.* at 5-6.

283 *Id.*

284 *Id.*

285 Docket No. RM2019-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), January 14, 2020, at 8 (Order No. 5405).

286 *Id.*

287 *Id.*

288 *Id.* at 2.

289 *Id.* at 12.

290 *Id.*

291 *Id.*

292 *Id.*

293 Docket No. RM2020-1, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), October 31, 2019 (Docket No. RM2020-1 Petition).

294 Docket No. RM2020-1 Petition, Proposal Nine, at 1.

295 *Id.*

296 *Id.*

297 *Id.* at 3.

298 Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 17, 2020, at 3 (Order No. 5637).

299 *Id.* at 10.

300 *Id.*

301 *Id.*

302 *Id.* at 2.

303 *Id.* at 13.

304 *Id.*

305 See Docket No. RM2020-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), July 9, 2020, at 5 (Order No. 5583); see Docket No. RM2020-7, Notice of Errata, July 14, 2020.

306 Order No. 5583 at 4, 6. The total letters and flats delivered volume is the sum of the volumes for four delivery volume variables: delivery point sequence mail, cased mail, sequenced mail, and Flats Sequencing System (FSS) mail. *Id.* at 14-15. The average (mean) volume for each of these four variables is calculated by multiplying the relevant proportion of the total delivered mail volume by the overall average delivered mail volume. *Id.* at 15.

307 *Id.* at 6.

308 *Id.*

309 *Id.* at 6-7.

310 *Id.* at 7.

311 *Id.*

312 *Id.*

313 *Id.*

314 *Id.* at 8.

315 *Id.*

316 *Id.* at 23.

317 *Id.*

318 Docket No. RM2019-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), January 6, 2020, at 3 (Order No. 5395).

319 *Id.* The IOCS “is a three-stage probability sample of employee work time, stratified by employee craft groups, and office Cost Ascertainment Groups (CAGs).” *Id.*

320 *Id.* at 5.

321 *Id.*

322 Docket No. RM2019-14, Order on Analytical Principles Used in Periodic Reporting (Proposal Eight), November 12, 2019, at 1-2 (Order No. 5299).

323 Docket No. RM2020-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), May 19, 2020 at 1-2 (Order No. 5515).

324 Docket No. RM2020-10, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), September 25, 2020, at 1, 15 (Order No. 5697).

325 Docket No. RM2019-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), October 1, 2019, at 2 (Order No. 5259). LC/AO is an abbreviation for “lettres et cartes” and “autres objets” and is French for “letters and cards” and “other objects.” LC/AO refers to international letters, cards, flats, bulky letters, and small packets, whether under the UPU terminal dues system, bilateral agreements, or multilateral agreements.

326 Docket No. RM2019-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), October 7, 2019, at 1 (Order No. 5269). PRIME is an international agreement among approximately 141 designated postal operators working together in the tracked packet area. *Id.* at 2. Under PRIME, designated postal operators provide each other with enhanced payments, in addition to the basic per item payment, for the timely return of scans. *Id.*

327 Docket No. RM2019-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), November 13, 2019, at 1 (Order No. 5305).

328 Docket No. RM2019-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), October 22, 2019, at 2 (Order No. 5280).

329 Docket No. RM2020-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 23, 2020, at 1 (Order No. 5693).

330 Docket No. RM2020-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), September 28, 2020, at 1-2 (Order No. 5700).

331 Docket No. RM2020-2, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 29, 2019.

332 Docket No. RM2020-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020.

333 Docket No. RM2020-9, Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, May 29, 2020 (Docket No. RM2020-9 UPS Proposal One).

334 Docket No. RM2020-9 UPS Proposal One at 3.

335 Docket No. RM2020-9, Notice and Order Establishing Comment Deadline, October 27, 2020, at 1 (Order No. 5738).

336 Order No. 5738 at 1-2.

337 39 U.S.C. § 3662(a).

338 Docket No. C2020-1, Complaint of Randall Ehrlich, December 23, 2019.

339 Docket No. C2020-1, United States Postal Service Motion to Dismiss with Prejudice the Complaint of Randall Ehrlich, January 13, 2020; Docket No. C2020-1, Response to Motion to Dismiss, January 31, 2020.

340 Docket No. C2020-1, Order Denying Postal Service Motion to Dismiss Complaint and Notice of Limited Formal Proceedings, March 17, 2020, at 3 (Order No. 5455).

341 *Id.*  
342 Docket No. C2020-1, United States Postal Service Motion to Dismiss with Prejudice the Complaint of Randall Ehrlich and Stay Deadlines, May 22, 2020.  
343 Docket No. C2020-1, Presiding Officer’s Ruling Issuing Intermediate Decision and Dismissing Complaint Without Prejudice, June 2, 2020.  
344 *Id.* at 10.  
345 *See id.*  
346 *Id.*  
347 Docket No. C2020-2, Complaint of the Greeting Card Association, January 30, 2020, at 1, 7-8 (GCA Complaint). Stamped letters consist of mailpieces bearing non-cancelled stamps or postal validation imprint indicia. Docket No. R2013-10, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 21, 2013, at 46 (Order No. 1890). Metered letters consist of single-piece letters with postage affixed by meter, information-based indicia, permit imprint, or pre-cancelled stamps. *Id.* Rates for metered letters are less than rates for stamped letters.  
348 GCA Complaint at 1.  
349 Docket No. C2020-2, United States Postal Service’s Motion to Dismiss with Prejudice the Greeting Card Association Complaint, February 19, 2020; Docket No. C2020-2, National Postal Policy Council Motion to Dismiss and Comments in Support of Pitney Bowes Inc. Motion to Dismiss, February 19, 2020; Docket No. C2020-2, Pitney Bowes Inc. Motion to Dismiss the Complaint of the Greeting Card Association, February 19, 2020; Docket No. C2020-2, Greeting Card Association Answer to Pitney Bowes Motion to Dismiss, February 26, 2020; Docket No. C2020-2, Greeting Card Association Answer to Postal Service Motion to Dismiss, February 26, 2020; Docket No. C2020-2, Greeting Card Association Answer to National Postal Policy Council Motion to Dismiss, February 26, 2020.  
350 Docket No. C2020-2, Order Granting the Postal Service’s Motion to Dismiss Complaint with Prejudice, April 28, 2020 (Order No. 5491)  
351 *Id.* at 4-7.  
352 *Id.* at 8.  
353 *Id.* n.20 (citing Docket No. C2009-1, Order on Complaint, April 20, 2011, at 28 (Order No. 718)).  
354 Order No. 718 at 28.  
355 Order No. 5491 at 9, 22-24.  
356 *Id.* at 25.  
357 39 U.S.C. § 3641.  
358 *Id.*; 39 C.F.R. part 3045.  
359 Docket No. MT2020-1, Order Authorizing Commercial PO Box Redirect Service, June 3, 2020 (Order No. 5528).  
360 Docket No. MT2020-2, Order Authorizing Extended Mail Forwarding Market Test, July 20, 2020, at 1 (Order No. 5591).  
361 *See* Order No. 5528, Order No. 5591.  
362 39 U.S.C. § 404(d)(5).  
363 Docket No. A2020-1, Petition for Review Received from Dylan Edward Mulligan, City Attorney, Regarding the Bellville, Georgia Post Office 30414, July 31, 2020.  
364 Docket No. A2020-1, United States Postal Service Motion to Dismiss Proceedings, August 10, 2020; Docket No. A2020-1, Response Brief of City of Bellville in Opposition to Postal Service’s Motion to Dismiss, August 21, 2020.  
365 Docket No. A2020-1, Notice of the United States Postal Service Regarding the Bellville Village Post Office, August 27, 2020.  
366 Docket No. A2020-1, Order Dismissing Appeal, September 1, 2020 (Order No. 5662).  
367 39 U.S.C. § 3663.  
368 Docket No. ACR2018, Library Reference USPS-FY18-NP9, December 28, 2018.  
369 Docket No. ACR2018, *Annual Compliance Determination Report* Fiscal Year 2018, April 12, 2019 (FY 2018 ACD).  
370 Docket No. ACR2018, Library Reference PRC-LR-ACR2018-NP3, April 12, 2019.  
371 Docket No. ACR2018, Notice of a Preliminary Determination to Unseal Library Reference PRC-LR-ACR2018-NP3, April 12, 2019 (Order No. 5055).  
372 Order No. 5055 at 14.  
373 Order No. 5151 at 2, 70.  
374 *Id.* at 69.  
375 *Id.* at 23.  
376 Petition for Review, *United States Postal Service v. Postal Reg. Comm’n*, No. 19-1155 (D.C. Cir. filed June 31, 2019).  
377 Docket No. ACR2018, Order Granting Stay Pending Judicial Review, August 2, 2019 (Order No. 5178).  
378 *United States Postal Service v. Postal Reg. Comm’n*, 963 F.3d 137, 143 (D.C. Cir. 2020) (Rao, J. concurring).  
379 *Id.* at 140, 142.  
380 *Id.* at 141.  
381 Docket No. ACR2018, Order Unsealing Library Reference, September 1, 2020 (Order No. 5665).  
382 Docket No. ACR2019, Order Issuing the Determination to Unseal Library Reference PRC-LR-ACR2019-NP3, September 18, 2020 (Order No. 5688).  
383 Order No. 5688 at 1.  
384 Docket No. ACR2019, Notice of Unsealing Library Reference, September 18, 2020.  
385 39 U.S.C. § 3633(a)(3). The “appropriate share” is “the minimum percentage level of contribution that [C]ompetitive products are required to collectively contribute toward the Postal Service’s total institutional costs.” Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019, at 18 (Order No. 4963). Requirements for Competitive products are discussed in the “Rate Adjustments — Competitive Products” section above.  
386 39 U.S.C. § 3633(b).  
387 *Id.*  
388 *See* Order No. 4963. Background and procedural history of this rulemaking are discussed in the *FY 2019 Annual Report*. *FY 2019 Annual Report* at 18-19.  
389 Petition for Review, *United Parcel Service, Inc. v. Postal Reg. Comm’n*, No. 19-1026 (D.C. Cir. filed February 4, 2019).  
390 *United Parcel Service, Inc. v. Postal Reg. Comm’n*, 955 F.3d 1038, 1041, 1049 (D.C. Cir. 2020).  
391 *Id.* at 1042, 1049-50 (emphasis in original).  
392 *Id.* at 1052.  
393 Docket No. R2019-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 13, 2018, at 1-2 (Order No. 4875).  
394 *See Carlson v. Postal Reg. Comm’n*, No. 18-1328 (D.C. Cir. 2019).  
395 *Carlson v. Postal Reg. Comm’n*, 938 F.3d 337 (D.C. Cir. 2019).  
396 *Carlson*, 938 F.3d at 340, 351-352.  
397 Pub. L. 79-404, 60 Stat. 237 (1946).  
398 Docket No. R2019-1, Order Approving Price Adjustments for First-Class Mail, October 24, 2019, at 3 (Order No. 5285).  
399 Order No. 5285 at 67.  
400 Docket No. C2019-1, Order Granting Motion to Dismiss, December 12, 2018 (Order No. 4924).  
401 Petition for Review, *Randall Ehrlich v. Postal Reg. Comm’n*, No. 19-1004 (D.C. Cir. filed January 10, 2019).  
402 Judgment, *Randall Ehrlich v. Postal Reg. Comm’n*, No. 19-1004 (D.C. Cir. filed December 10, 2019) (unpublished).

403 *Id.* at 2.

404 *Id.* at 2-3.

405 *Elaine Mittleman v. Postal Reg. Comm'n*, 757 F.3d 300, 308 (D.C. Cir. 2014); see Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2014*, January 5, 2015, at 53.

406 Respondent's Opposition to Petitioners' Motion to Recall the Mandate, *Elaine Mittleman v. Postal Reg. Comm'n*, Nos. 12-1095, 12-1110, and 12-1157, at 2 (D.C. Cir. filed October 2020) (Respondent's Opposition).

407 Petitioners' Motion to Recall the Mandate, *Elaine Mittleman v. Postal Reg. Comm'n*, Nos. 12-1095, 12-1110, and 12-1157 (D.C. Cir. filed September 25, 2020); Respondent's Opposition.

408 Order, *Elaine Mittleman v. Postal Reg. Comm'n*, Nos. 12-1095, 12-1110, and 12-1157 (D.C. Cir. filed October 23, 2020).

409 Petition for Review, *National Postal Policy Council v. Postal Reg. Comm'n*, No. 17-1276 (D.C. Cir. filed December 29, 2017); Petition for Review, *National Postal Policy Council and Major Mailers Association v. Postal Reg. Comm'n*, No. 20-1505 (D.C. Cir. filed December 18, 2020); Petition for Review, *Alliance of Nonprofit Mailers et al. v. Postal Reg. Comm'n*, No. 20-1510 (D.C. Cir. filed December 18, 2020); Petition for Review, *United States Postal Service v. Postal Reg. Comm'n*, No. 20-1521 (D.C. Cir. filed December 29, 2020).

410 39 U.S.C. § 407(b)(1).

411 39 U.S.C. § 407(c)(1).

412 39 U.S.C. § 407(c)(2).

413 Docket No. IM2020-1, Notice of Filing Correspondence, March 9, 2020; Letter from Nerissa J. Cook, Deputy Assistant Secretary, United States Department of State, Bureau of International Organization Affairs, to Robert G. Taub, Chairman, Postal Regulatory Commission, March 6, 2020.

414 Docket IM2020-1, Notice and Order Establishing Section 407 Proceeding, March 9, 2020, at 2 (Order No. 5450).

415 Docket IM2020-1, Notice of Posting of Proposals, March 26, 2020; Docket IM2020-1, Notice of Posting of Document, March 30, 2020; Docket IM2020-1, Notice of Posting of Proposal, April 17, 2020.

416 Docket IM2020-1, Notice of Filing Correspondence, April 21, 2020.

417 On October 29, 2020, the UPU decided to maintain Abidjan, Côte d'Ivoire as the host city for the 27th Congress in August 2021, as long as the Ivorian Government maintained its firm and unequivocal commitment to host the event once the situation returned to normal. The UPU also decided that, in the event the 27th Congress could not be held in Côte d'Ivoire, it would be convened in Switzerland no later than September 2021. The Commission will set the new comment deadline once the specific dates are confirmed. See <https://www.upu.int/en/Press-Release/2020/10/UPU%E2%80%99s-27th-Universal-Postal-Congress-moved-to-August-2021>.

418 Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, at 18 (USO Report).

419 USO Report at 10 n.1; see "Value of the Postal Monopoly" section, below.

420 The Commission is evaluating comments and suggestions for modifications and enhancements to the current estimation methodology to account specifically for recent Postal Service data changes and for any other aspects of the letter and mailbox monopolies (postal monopoly) estimation methodology. See Order No. 5260.

421 39 U.S.C. § 3651(b)(1); "Chapter III — Public Inquiries" section above.

422 At the time the *FY 2020 Annual Report* was prepared, the most currently available complete data are from FY 2019.

423 See 39 U.S.C. § 3651(b)(2).

424 39 U.S.C. § 3651(b)(1)(A). 39 U.S.C. § 101(b) requires the Postal Service to "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining." *Id.* § 101(b).

425 39 U.S.C. § 403(b)(3).

426 Docket No. RM2015-19, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Ten), November 24, 2015, at 1 n.2 (Order No. 2837).

427 See USO Report, Appendix F, Section 3 (Robert H. Cohen and Charles McBride, "Estimates of the Current Costs of the USO in the U.S." at 26).

428 The Rural Mail Count classifies all remunerable activities of rural carriers as either post office or street activities. However, some post office activities can occur on the street. For example, parcel acceptance on the street is considered a post office activity because it can substitute for a customer sending a parcel at a post office window.

429 See Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2016*, January 12, 2017, at 42.

430 Leave replacement refers to "[a] noncareer hourly rate employee who performs as a relief or leave replacement during the absence of a postmaster in a small [p]ost [o]ffice." See Glossary of Postal Terms, *supra* note 175.

431 USO Report at 139.

432 The Postal Service states that the main causes of higher air transportation costs in FY 2019 were higher air rates, higher volumes for certain carriers, and higher average jet fuel prices. United States Postal Service, 2019 Annual Report on Form 10-K, November 14, 2019, at 17.

433 The Commission found it equitable to offer one post office box at no charge to any customer the Postal Service determined ineligible for carrier delivery. Docket No. MC96-3, Opinion and Recommended Decision, April 2, 1997, at 62.

434 See USO Report at 196.

435 Docket No. RM2011-9, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal One), April 6, 2011, at 1.

436 Docket No. RM2011-9, Order Concerning Analytical Principles Used in Periodic Reporting (Proposal One), June 9, 2011, at 4 (Order No. 744).

437 39 U.S.C. § 3651(b)(1)(B). The Postal Service provides free postage for blind and disabled persons and for overseas voting. *Id.* §§ 3403-3406. The Postal Service receives appropriated funds reimbursing it for providing free postage. *Id.* § 2401(c). For this reason, the cost of providing free postage is not included in the USO Cost.

438 FY 2018 ACD at 39.

439 In this Annual Report, attributable cost means incremental cost. See Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 125 (Order No. 3506). The attributable cost for years before FY 2016 reflect the accepted methodology for those years and have not been recalculated. 39 U.S.C. § 3622(c)(2) defines attributable cost as the "direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]" In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs, developed as part of the estimation of incremental costs. Before that order, attributable cost only included the sum of volume-variable costs, which rise as volume increases and fall as volume decreases, and product-specific fixed costs, which are costs caused by a specific product, but do not vary with volume. See Docket No. ACR2016, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2016, March 31, 2017, at 37.

440 Periodicals is a preferred class of mail and receives several statutory discounts such as a 5 percent discount for nonprofit and classroom publications. These losses were initially called "Losses on Market Dominant Products" in past Annual Reports. The Commission later clarified that the USO Cost only includes Periodicals Losses. Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2012*, January 3, 2013, at 37 n.3. Losses on other unprofitable Market Dominant products are not included because those products are in classes that were profitable overall. USO Report at 134. In FY 2019, the losses from Media Mail/Library Mail exceeded the contribution of the other products in Package Services, making the class unprofitable as a whole with a net contribution of negative \$26.4 million. FY 2019 Financial Analysis, Appendix A. The methodology for estimating the cost of uniform rates for Media Mail/Library Mail captures this loss as part of the cost of that element of the USO. To avoid double counting, the loss is not listed separately here.

441 FY 2018 ACD at 25, 40-41. The Periodicals class is comprised of two products: In-County and Outside County. In-County is typically used by newspapers with smaller weekly circulations for distribution within county of publication. Outside County consists of publications with a wide variety of circulation sizes, distribution patterns, and frequency. FY 2019 Financial Analysis at 62. Both In-County and Outside County Periodicals average unit attributable costs increased significantly in FY 2019. *Id.* at 64.

442 See Order No. 5763; “Chapter III - Rulemakings Amending Commission Regulations” section above.

443 Order No. 5763 at 159-160, 190-191. Order No. 5763 revised 39 C.F.R. part 3030 to create a new subpart for Non-compensatory Classes or Products. *Id.* at 370; *id.*, Attachment at 38-39.

444 FY 2019 ACD at 2.

445 39 U.S.C. § 3651(b)(1)(C).

446 See, e.g., Consolidated Appropriations Act, 2017, Pub. L. 115-31, 131 Stat. 135, 369 (2017) (“6-day delivery and rural delivery of mail shall continue at not less than the 1983 level”).

447 The methodology for calculating the current cost of Six-Day Delivery differs from the methodology applied in the USO Report in 2008 because it reflects refined and more comprehensive costs based on the Commission’s findings in its Advisory Opinion on Elimination of Saturday Delivery. See Docket No. N2010-1, Advisory Opinion on Elimination of Saturday Delivery, March 24, 2011; Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2011*, December 21, 2011, at 41.

448 39 U.S.C. § 404(c).

449 39 U.S.C. § 3683.

450 The decrease in the unit contribution of Media Mail/Library Mail in FY 2019 is due to the increase (8.6 percent) in the unit attributable cost for Media Mail/Library Mail in FY 2019. The slight increase in the unit revenue for Media Mail/Library Mail in FY 2019 was not enough to offset the larger increase in the unit attributable cost. See FY 2019 Financial Analysis at 66-67; Appendix A, at 1.

451 See FY 2019 Annual Report at 49.

452 See United States Postal Inspection Service, available at: <https://www.uspis.gov/about/what-we-do/>.

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

454 See United States Postal Inspection Service, available at: <https://www.uspis.gov/about/what-we-do/>.

455 18 U.S.C. § 1725.

456 The letter monopoly is codified in the Private Express Statutes. See 18 U.S.C. §§ 1693–1699 and 39 U.S.C. §§ 601–606.

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

458 See Order No. 5260; “Chapter III — Public Inquiries” section above.

459 See Docket No. PI2020-1, Comments of the Association for Postal Commerce, November 1, 2019; Docket No. PI2020-1, Comments of the Greeting Card Association, November 1, 2019; Docket No. PI2020-1, Comments of the National Postal Policy Council, November 1, 2019; Docket No. PI2020-1, Comments of the Public Representative, November 1, 2019; Docket No. PI2020-1, Initial Comments of United Parcel Service, Inc. on Notice and Order Providing an Opportunity to Comment, November 1, 2019; Docket No. PI2020-1, Initial Comments of the United States Postal Service, November 1, 2019.

460 See USO Report at 143-152.

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

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

463 The base case model entrant delivery frequency differs for the postal and mailbox monopoly estimates calculation, *i.e.*, assumed entrant delivery frequency for the postal monopoly estimate is 3 days a week and 1 day a week for the mailbox monopoly estimate.

464 Subtracting the value of the mailbox monopoly from the value of the postal monopoly does not yield the value of the letter monopoly because there is an overlap in the contestable mail and a different frequency of delivery by the competitor. Without access to mailboxes, it is unlikely that the competitor could successfully capture mail directed to a specific person or address because those mailpieces are delivered to and collected from mailboxes. Therefore, a separate estimate of the value of the letter monopoly alone (retaining the mailbox monopoly) is not provided.

465 See USO Report at 144, Table 5 notes 2, 5; 143-146.

466 See notes to Table IV-7.

467 The FY 2019 estimates were calculated accounting for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the City Carrier Cost System and the Rural Mail Count and Rural Carrier Cost System.

468 See USO Report at 144. The monopoly estimates in the USO Report were developed using the FY 2007 City Carrier Cost System, FY 2007 Rural Carrier Cost System, and the FY 2006 Rural Mail Count. USO Report, folder “Appendices,” folder “USO Appendices,” PDF file “Appendix F Section 4.pdf,” at 9 n.9.

469 USO Report, folder “Appendices,” folder “USO Appendices,” PDF file “Appendix F Section 4.pdf,” at 10.

470 See USO Report at 144. The FY 2019 postal monopoly estimate calculated using the “low” model assumptions was \$0.20 billion compared to the “low” model estimate of \$0.18 billion in the USO Report.

471 Compare USO Report Table 5 at 144 with Table IV-7.





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