

Postal Rates, USPS Finances, Pandemic, PSRA, & GHG Reporting

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Topics

- Ratemaking System and Pandemic
- Rate Increases and USPS Profit
- PSRA Cost Savings and Shifts
- SEC Carbon Disclosure Requirements

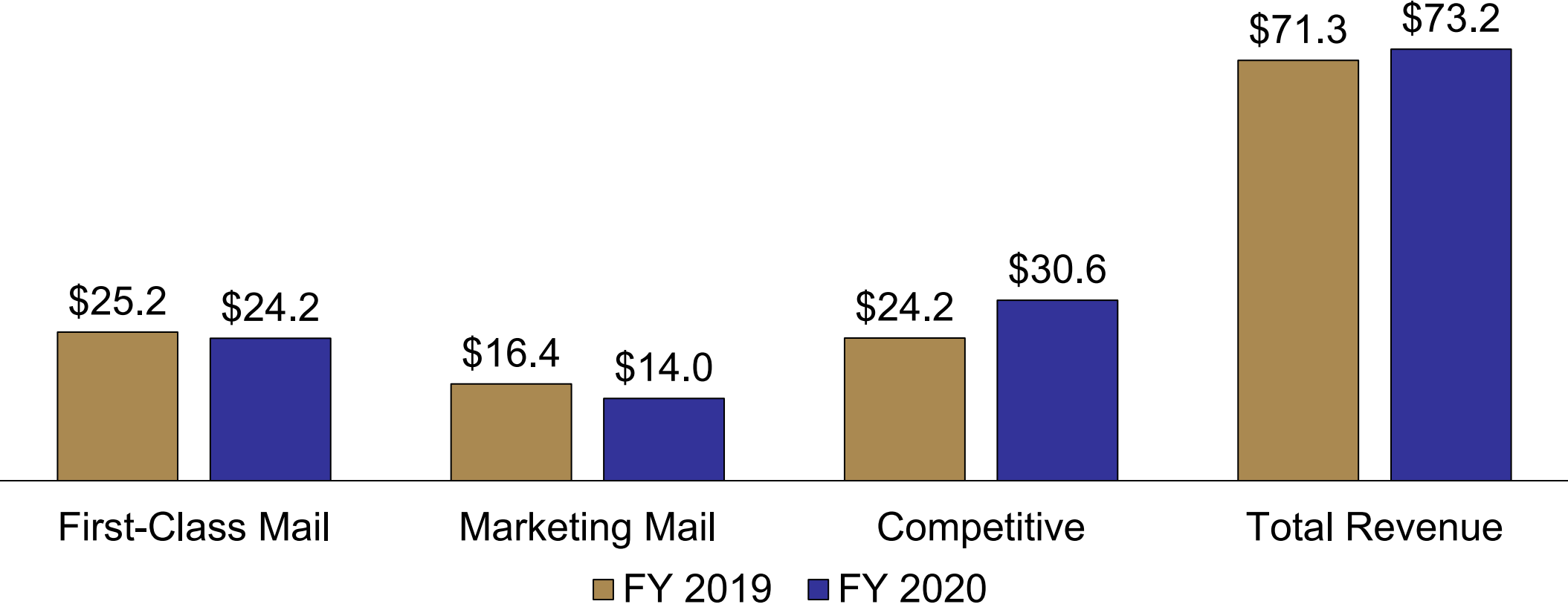
Did Ratemaking System Properly Account for Pandemic?

*House of Representatives “is concerned with the size and timing of the [7 percent August 2021] rate increase and that the PAEA process did not account for the impact of the pandemic, including factors such as **higher package revenues and emergency funding provided by the USPS**”*

House's Concern Is Correct

- USPS benefitted from pandemic
 - Pandemic had little direct impact on USPS finances
 - CARES Act provided USPS with \$10 billion
- Thus, no additional rate authority was justified
- But 10-year review granted USPS huge rate authority
 - 4.5 percent (based upon FY 2020 volume declines)
 - >\$2 billion per year in higher rates (in perpetuity)

Little Direct Impact on USPS Revenue...



...or Net Income

(in billions)	FY 2019	FY 2020	
		Plan**	Actual
Revenue	\$71.2	\$71.7	\$73.1
Cost*	\$77.7	\$79.2	\$80.6
Net Income*	(\$6.7)	(\$7.6)	(\$7.6)

* Excludes non-cash workers' compensation

** Developed prior to the pandemic

Why Did This Happen? Density Formula Treats All Volume Change the Same Regardless of Contribution

Mail Class	Volume (in billions)			% Change	Per Piece Contribution
	FY 2019	FY 2020	Change		
First-Class Mail	55.6	52.9	-2.7	-4.8%	\$0.226
Marketing Mail	75.7	64.2	-11.5	-15.2%	\$0.049
Competitive Products	5.7	7.1	1.5	25.7%	\$1.569
Total	142.6	129.2	-13.4	-9.4%	

Unfortunately, this huge mistake has been pointed out to PRC many times and it has shown no interest in fixing.

Price Elasticity and Profitability

- For nearly 50 years, USPS has estimated price elasticities for postal goods
- Quantify how mail volumes change in response to price changes
- Econometric models fit using quarterly volumes, real prices, and other economic and non-economic variables
 - **Consistent findings:** rate increases result in volume declines, but demand for mail is inelastic

Impact of Rate Increases on USPS Profit

Determined by Price Elasticity: % Change in Volume / % Change in Rates

First-Class Mail

Stamped Letters:	-0.2
Metered Letters:	-0.3
Presort Letters:	-0.3

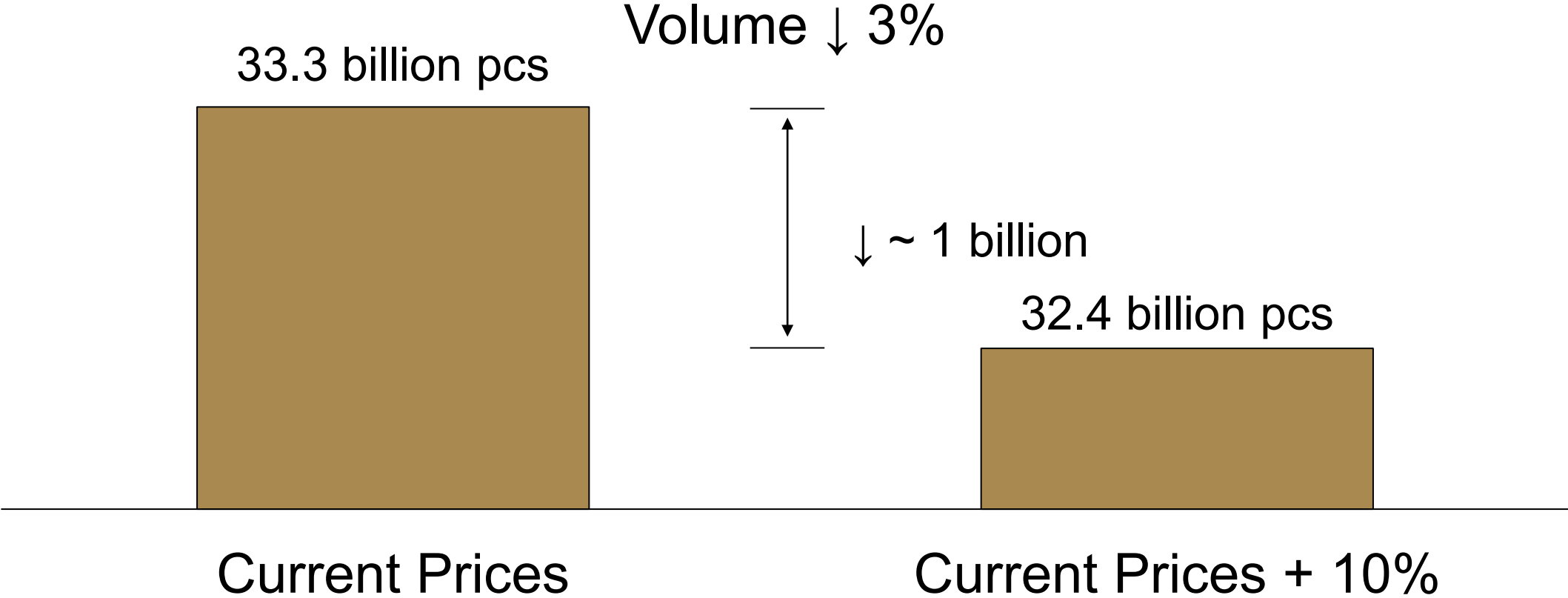
USPS Marketing Mail*

Letters:	-0.5
Flats:	-0.4
HD/Sat Letters:	-0.6
HD/Sat Flats:	-0.7

* Commercial

Example: According to USPS models, a 10 percent increase in Presort Letter rates results in a 3 percent volume decrease

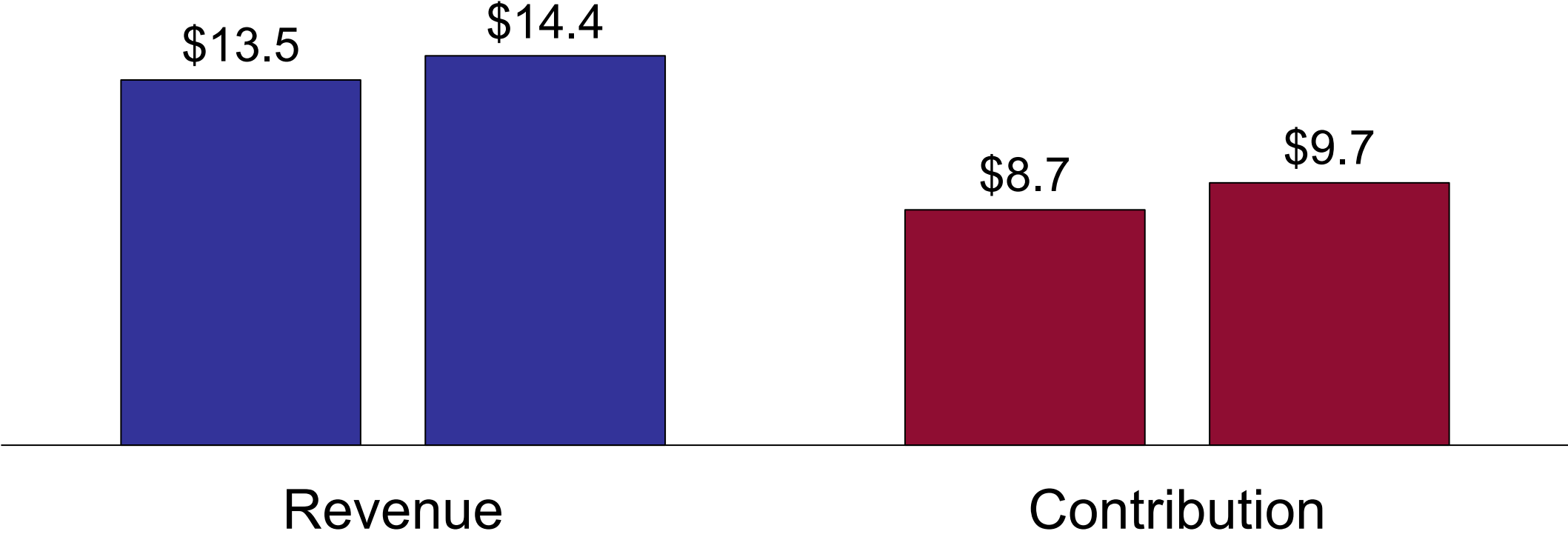
10% Increase in FCM Presort Letter Rates



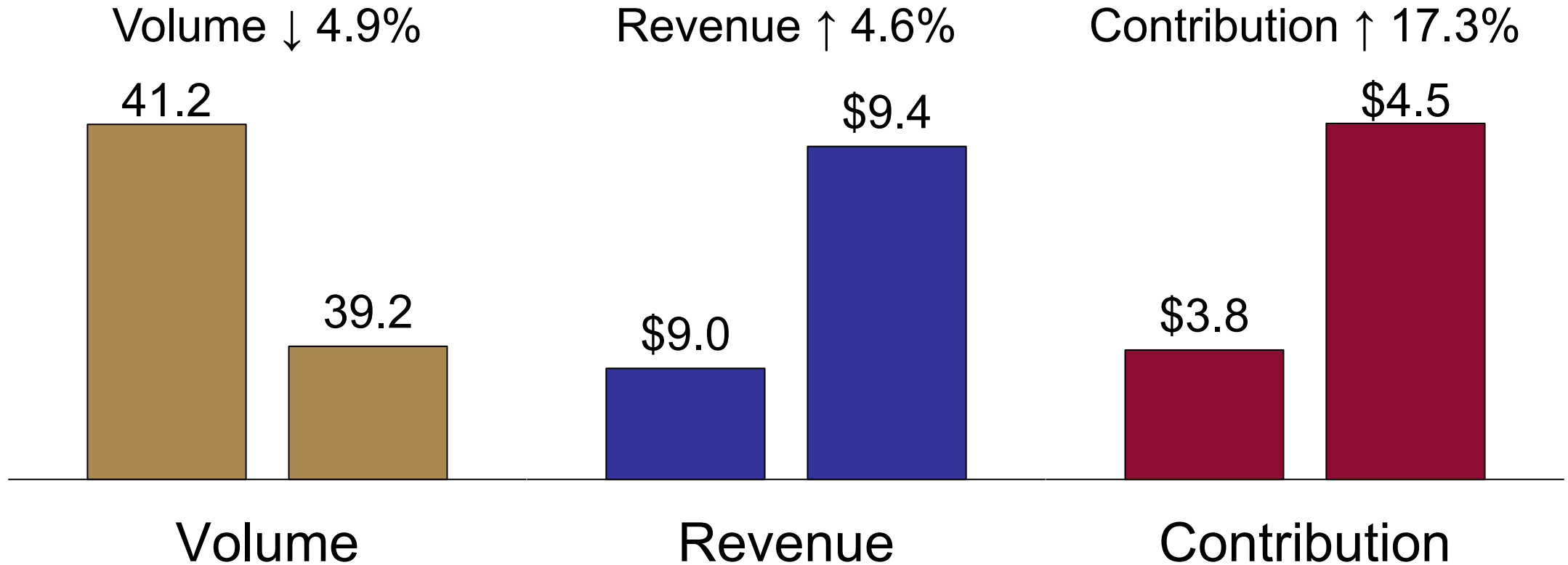
10% Increase in FCM Presort Letter Rates

Revenue ↑ \$1 billion (6.8%)

Contribution ↑ \$1 billion (12.2%)



10% Increase in Marketing Letter Rates



Price Elasticity Would Need to Be Many Times Larger for Rate Increases to Hurt USPS Finances

Product	Elasticity		Ratio
	USPS Model	Breakeven	
FCM Presort Letters	-0.3	-1.4	4.7x
Marketing Mail Letters	-0.5	-1.9	3.8x

No surprise here: that's why price cap is needed.

FY 2022 Finances Generally Confirm USPS Model

(in billions)	FY 2022 YTD*	SPLY	% Change
First-Class Mail			
Volume	30.1	31.0	-2.8%
Revenue	\$14.6	\$14.2	3.2%
USPS Marketing Mail			
Volume	40.2	39.6	1.6%
Revenue	\$9.5	\$8.6	10.6%

*Through April

PSRA Cost Savings & Shifts

- Medicare integration reduces future USPS costs
- PSRA also shifts substantial RHB cost off Balance Sheet, but does not eliminate cost
 - \$57 billion unpaid balance
 - ~\$4 billion per year normal cost
 - ~\$1 billion amortization (no longer mandated)

USPS Balance Sheet (FY 2021 EOY)

(in Billions)	Without PSRA	With PSRA
Assets		
Cash	\$24.3	\$24.3
Property & Equipment	\$14.8	\$14.8
Other	\$9.5	\$9.5
Total Assets	\$46.4	\$46.4
Liabilities		
Debt	\$11.0	\$11.0
Retirement Benefits	\$14.9	\$14.9
Retiree Health Benefits	\$57.0	\$0.0
Other	\$39.2	\$39.2
Total Liabilities	\$122.1	\$65.1

USPS Expanded Balance Sheet (FY 2021 EOY)

(in Billions)	Without PSRA	With PSRA
Assets		
Cash	\$24.3	\$24.3
Property & Equipment	\$14.8	\$14.8
Other	\$9.5	\$9.5
Total Assets	\$46.4	\$46.4
Liabilities		
Debt	\$11.0	\$11.0
Retirement Benefits	\$64.3	\$64.3
Retiree Health Benefits	\$81.3	\$???
Other	\$39.2	\$39.2
Total Liabilities	\$195.8	\$114.5 + RHB

FY 2022 USPS Financials Will Look Weird

(in billions)	April YTD	SPLY	Change
Revenue	\$47.5	\$46.8	\$0.7
Costs	(\$10.7)	\$47.2	(\$57.9)
Net Income	\$58.1	(\$0.4)	\$58.5



Implications yet to-be-determined, but may eliminate FY 2022 density authority.

Proposed SEC Carbon Disclosure Rule

- SEC's rationale: to protect investors
- Firms' finances can be affected by physical effects of climate change and by steps governments and consumers may take in response to climate change
- SEC concludes investors need carbon disclosures to make capital markets fair and efficient, thus protecting investors

SEC Timeline

- Discussion covers proposed SEC rules
- Comments on proposal were due yesterday
- SEC considers comments in promulgating final rules
- Proposed rules can be modified before promulgation or stopped by courts
- Proposal calls for reporting beginning in FY 2023

SEC-Proposed Carbon Reporting Requirements

- Greenhouse gas emissions (also called CO₂e) emissions from a firm's activities
- All three scopes
 - Scope 1 – Activities directly under the firm's control
 - Scope 2 – Purchased electricity and line losses
 - Scope 3 – Outsourced activity (if material), including your USPS mailings
- See GHG Protocol (<https://ghgprotocol.org>)

USPS Carbon Accounting



Company: SLS Consulting, Inc.
CRID: 94538500

Change Month and Year
November 2019 [Show Data](#)

Month 02 of Fiscal Year 2020 (11/01/2019 - 11/30/2019)

Month Quarter Fiscal Year Year Ending In Selected Month

Carbon Accounting Statement

This report displays the carbon dioxide equivalent (CO₂-e) impact in metric tons (MT) the Postal Service incurs for your parcels and/or mail pieces.

[Click here for more information](#)

Month/Year	Mail Product	Pieces Used in Emission	Pieces Excluded	Carbon Lifecycle Emission (MT)	Carbon Footprint Emission (MT)
Nov 2019	Bound Printed Matter	5000	0	1.1986	1.7998
Nov 2019	First-Class Mail	140000	0	19.3273	20.1503
Nov 2019	Media/Library Mail	2000	0	2.0143	3.0748
Nov 2019	Parcel Select	76500	0	309.0367	262.4795
Nov 2019	Periodicals	20000	0	1.0056	1.4632
Nov 2019	Priority Mail	60000	0	480.8965	421.2146
Nov 2019	USPS Marketing Mail	642000	0	59.9330	87.4202
	Total	945500	0	873.4120	797.6025

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Q & A