BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2021	Docket No. ACR2021

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(January 31, 2022)

The National Postal Policy Council ("NPPC") respectfully submits these comments on the Postal Service's Annual Compliance Report for Fiscal Year 2021 ("*ACR*"), filed December 29, 2021.

In these comments, NPPC will address:

- The Postal Service's failure to comply with Rule 3050.21, which requires it to report on all of the workshare discounts in effect in the year being reviewed;

- The need to improve current Commission rule 3030.284, which by allowing the Postal Service to set the minimum workshare discount passthrough at 85 percent of cost savings in practice ensures that most discounts will, in fact, be at inefficient levels while in effect;

- How the decline of First-Class Flats to non-compensatory levels shows that the attempted fixes to flats costs have proven unsuccessful, and that solutions other than ever-higher rates should be considered; and

- That service performance for First-Class Mail, particularly Presort and Flats Mail, remains well below standards—or even "targets"--and mailers have no assurance that they are receiving the quality of service for which they are paying.

I. THE POSTAL SERVICE HAS ONLY PARTIALLY COMPLIED WITH THE REQUIREMENT THAT THE ACR REPORT THE WORKSHARE DISCOUNTS IN EFFECT DURING FY2021

Commission rule 3050.21 requires the Postal Service to include, in its Annual Compliance Report "[f]or *each* market dominant workshare discount *offered during the reporting year*:

> (1) The per-item cost avoided by the Postal Service by virtue of such discount;
>
> (2) The percentage of such per-item cost avoided that the per-item workshare discount represents;
>
> (3) The per-item contribution made to institutional costs."

39 C.F.R. §3050.21(e)(1)-(3) (emphasis supplied).[1]

The Postal Service has not fully complied with Rule 3050.21. In Library Reference USPS FY21.3 Worksharing Tables, it presents the "per-item cost avoided" for various First-Class workshare discounts during the fiscal year. The costs avoided are calculated as a per-unit average using costs from the full year. However, the Postal Service has provided the passthrough percentage for only the discount in effect on the last day of the fiscal year. *E.g.*, LR FY21.3 Tab FCM Bulk Letters, Cards, n.1. Those prices took effect on August 29, 2021, a full eleven months into the fiscal year. *Id*.

Nowhere does the ACR address the discounts in effect throughout the first eleven months of FY2021. For this reason, the Postal Service has not met its

[1] The rule requires additional information if the Postal Service claims that a statutory exception applies or for certain discounts applicable to mail matter having "educational, cultural, scientific or informational value." 39 C.F.R. §3050.21(e)(4)&(5).

obligation to present workshare discount passthroughs for *each* market dominant workshare discount offered during the reporting year.

However, data presented in the ACR allows the actual passthroughs for each discount to be calculated. Fiscal Year 2021 began on October 1, 2020. At that time, the workshare discounts in effect for First-Class Presort Letters and Cards, and for First-Class Flats (the products of particular interest to NPPC), were those set in Docket No. R2020-1. That docket was filed on October 9, 2019, and used Fiscal Year FY2018 data for the avoided costs. The discounts for certain First-Class Mail categories were set as follows:

Figure 1 (R2020-1 Discounts)

Category	Benchmark		Discount	Avoided Cost (FY18)	Passthrough
AADC Mixed Letters	Metered Letters		$0.061	$0.067	91.0%
AADC	Auto Mixed		$0.020	$0.024	83.3%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.030[2]	$0.034	88.2%
Auto ADC Flats	Auto Mixed AADC Flats		$0.096	$0.112	85.7%
Auto 3-Digit Flats	Auto ADC Flats		$0.043	$0.050	86.0%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.147	$0.172	85.5%

Those rates remained in effect for more than 3 ½ months of FY 2021, until the rates filed in Docket No. R2021-1 took effect on January 24, 2021. Those rates were

[2] The Postal Service initially noticed this discount at $0.028, but due to a calculation error revised it to $0.030 before the rates took effect.

noticed on October 9, 2020, and the costs avoided used to set the discounts, and thus the passthroughs, were from Fiscal Year 2019. As can be seen, both the amount of each discount and the corresponding passthrough changed:

Figure 2 (R2021-1 Discounts)

Category	Benchmark		Discount	Avoided Cost (FY19)	Passthrough
AADC Mixed Letters	Metered Letters		$0.060	$0.067	89.6%
AADC	Auto Mixed		$0.022	$0.025	88.0%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.030	$0.038	78.9%
Auto ADC Flats	Auto Mixed AADC Flats		$0.108	$0.112	88.5%
Auto 3-Digit Flats	Auto ADC Flats		$0.048	$0.056	85.7%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.158	$0.180	87.8%

These rates were in effect for seven months, until the Postal Service raised rates again on August 29, 2021, as a consequence of Docket No. R2021-2. Those passthroughs were based on costs avoided using FY 2020 data, and are shown is Figure 3:

Figure 3 (R2021-2 Discounts)

Category	Benchmark		Discount	Avoided Cost (FY20)	Passthrough
AADC Mixed Letters	Metered Letters		$0.045	$0.052	86.5%
AADC	Auto Mixed		$0.024	$0.028	85.7%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.035	$0.041	85.4%
Auto ADC Flats	Auto Mixed AADC Flats		$0.108	$0.108	100.0%
Auto 3-Digit Flats	Auto ADC Flats		$0.053	$0.054	98.1%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.175	$0.173	98.3%

Of the three sets of workshare discounts “in effect” in FY2021, the *ACR* discusses only the third set (from August 29, 2021), which were in effect for barely one month of the fiscal year.

NPPC understands that a similar situation occurs in most ACRs, as new rates (including discounts) in past years have typically taken effect a third of the way into a fiscal year, often in January (as was the case with the R2021-1 rates), superseding rates that carried over from the preceding fiscal year. To our knowledge, neither the Commission nor the Postal Service has addressed whether it is consistent with the law to ignore discounts that were in effect for the first several months of the fiscal year. Indeed, only last year the Commission stated:

> Section 3653(b)(1) of Title 39, requires the Commission to base its determinations on the rates and fees “in effect” during FY 2020. The end of year prices in effect in FY 2020 were the prices approved in Docket No. R2020-1. Therefore, the discounts evaluated for compliance in FY 2020 are the Docket No. R2020-1 prices.

Annual Compliance Determination, FY 2020, at 12. Rates from Docket No. R2020-1 took effect on January 26, 2020, nearly four months into the fiscal year. The Commission apparently did not review the discounts in effect from October 1, 2019, until January 25, 2020.

That practice is of doubtful consistency with the statutory requirement in 39 U.S.C. §3652, which directs the Postal Service to file (i) the per-item cost it avoided by virtue of such discount, (ii) the passthrough percentage, and (iii) the per-item contribution to institutional costs with respect "to each market-dominant product for which a workshare discount was in effect during the period covered by such report." While the *ACR* does provide the per-item costs avoided, it presents the passthrough percentage for only the most recent set of the discounts, and because it ignores two sets of prices it cannot provide the per-item contribution to institutional costs generated while those rates were in effect.

The statute and rules do not require the Postal Service to show merely that the prices in effect at the end of the fiscal year comply with legal requirements – the rule specifically refers to "each" discount "in effect" during the year. The omission of any discussion of discounts in effect earlier in FY 2021 is particularly misleading in this year's *ACR* because the discounts that the Postal Service uses to show compliance for the entire year were, in fact, in effect for only 33 days. Barely one month's data cannot possibly show the passthrough percentages discounts in effect earlier in the fiscal year or suffice to measure compliance for a year.

II. THE DISCOUNTS IN EFFECT THROUGOUT FY2021 DEMONSTRATE THAT THE NEWLY-ADOPTED WORKSHARE DISCOUNT PASSTHROUGH RULES MUST BE STRENGTHENED TO ENSURE THAT THE DISCOUNTS ARE, IN FACT, SET MORE EFFICIENTLY

Data from the ACR shows that the current rules, and the Postal Service's recent ratesetting practices, have not, and are not likely to, produce economically efficient rates. There are two reasons for this.

One is the well-known timing mismatch between rates and costs because discounts noticed in rate adjustments are for a future period but are measured against past costs. For example, FY2018 ended on September 30, 2018, and the Postal Service filed Docket No. R2020-1 over a year later on October 9, 2019.[3] NPPC is well aware that discounts have been set during the PAEA era on the basis of this mismatch. Changing that approach would involve many considerations that are far outside of the scope of this proceeding.

Indeed, the Postal Service alludes to this mismatch in its response to *Chairman's Information Request No.* 1, Q9(d) in this docket. It states: "It should be noted that while, as a technical matter, the 'compliance' of any given passthrough percentage may change between a price case and the subsequent annual compliance report (ACR) (because cost-avoidance data can and do change over that period), the sole opportunity for Postal Service to actually comply or not comply with the

[3] The Postal Service filed Docket No. R2021-2 on May 28, 2021, using avoided costs from FY2020 which ended on September 30, 2020. Those rates took effect on August 29, 2021, eleven months after the close of the fiscal year on which they are based, and remain in effect today, 16 months later. The FY2021 data provided in this ACR proceeding show, as shown in Table 4 above, that all but one of those passthroughs are already out of compliance.

workshare rules is when it sets prices". *Response to Chairman's Information Request No. 1, Q 9* (Jan. 18, 2022).

While that may be true, there is another factor at play that has reduced the pricing efficiency of workshare discounts that the Commission can more easily correct to make efficient workshare discount pricing more likely. That is the Postal Service's chronic practice of setting discounts materially less than the economically efficient 100 percent, which the Commission has already found inconsistent with the objective of maximizing efficiency. *See* Order No. 4257, Docket No. RM2017-3, at 138-139 (Dec. 1, 2017). Applying miserly passthroughs to out-of-date cost data almost ensures that most discounts will be nowhere near economically efficient levels while in effect.

For example, the Automation Letter discount passthroughs in Docket No. R2020-1 ranged from 91 percent to 83.3 percent—and those were of *FY2018* costs. When those rates were filed on October 9, 2019, they relied on costs avoided that were already more than one year out of date. As Figure 5 below shows, the actual passthrough percentages, measured by actual FY 2020 costs, ranged mostly in the 60s and 70s. It is unsurprising that applying low discount passthroughs to out-of-date costs results in actual workshare discounts that are far less than the actual costs avoided during the period that the discounts are in effect.

Recently adopted Commission Rule 3030.284(e) took a step towards forcing the Service towards more efficient rates, but it is evident that the new rule, which allows the Postal Service to set passthroughs as low at 85 percent, is inadequate because, in reality, the true passthroughs will most likely rarely be at that level.

Stronger measures are required in order to achieve the objective of maximizing efficiency in workshare discount rates. As explained in section B below, NPPC urges the Commission to move quickly to modify Rule 3030.284(e) to require minimum passthroughs of at least 95 percent.

A. The Actual First-Class Mail Workshare Discount Passthroughs In FY2021 Were Grossly Inefficient And Far Below The Levels Expected When They Were Noticed And Approved

Docket No. R2021-2 was the first rate adjustment to which Rule 3030.284(e) applied. As shown in Figure 3 above, the Postal Service complied with the new rule by setting the discounts for Automation Presort Letters very close to the 85 percent minimum allowed. In contrast, it set the passthroughs for First-Class Automation flats quite close to 100 percent, albeit of *FY2020* costs.

However, remember that those rates were based on FY 2020 costs, took effect in August 2021, and applied for only one month of the fiscal year. The *ACR* compares those discounts to the newly-calculated FY 2021 costs,[4] and for convenience that comparison is set out in Figure 4. Note that all but one of those discounts have *already* fallen below 85 percent, as the Postal Service acknowledges:

[4] LR USPS-FY21.3 Worksharing Tables, Tabs FCM Bulk Letters, Cards & FCM Flats.

Figure 4 (R2021-2 Discounts compared to *FY21 ACR* Costs)

Category	Benchmark		Discount	Avoided Cost (FY21)	Passthrough (actual)
AADC Mixed Letters	Metered Letters		$0.045	$0.073	61.6%
AADC	Auto Mixed		$0.024	$0.026	92.3%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.035	$0.042	83.3%
Auto ADC Flats	Auto Mixed AADC Flats		$0.108	$0.132	81.8%
Auto 3-Digit Flats	Auto ADC Flats		$0.053	$0.069	76.8%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.175	$0.207	84.5%

Observe that the current fiscal year is only four months old and the discounts for AADC Mixed Letters and, in particular, the important and high-volume Automation 5-Digit Letters are already significantly below efficient levels and even below the 85 percent minimum. All of the First-Class Automation Flats discounts have dropped dramatically, meaning that the close-to-100 percent passthroughs presented in Docket No. R2021-2 were illusory, as FY 2021 costs avoided turned out to differ substantially from those from FY 2020. Only the passthrough for AADC Letters has increased, but it remains considerably below 100 percent.

Of course, the discounts from Docket No. R2021-2 were in effect for only one month in FY2021. The two other sets of workshare discounts in effect earlier in FY2021 were based on even more outdated costs. Figure 5 compares the passthroughs for the discounts implemented in Docket No. R2020-1 (in effect in FY21 from October 1, 2020, to January 23, 2021) as measured when filed (using FY18 data) and to the actual costs avoided in FY2021:

Figure 5 (R2020-1 Discounts compared to *ACR* Costs)

Category	Benchmark		Discount	Avoided Cost (FY21)	P/T (as filed)	P/T (actual)
AADC Mixed Letters	Metered Letters		$0.061	$0.073	91.0%	83.6%
AADC	Auto Mixed		$0.020	$0.026	83.3%	76.9%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.030	$0.042	88.2%	71.4%
Auto ADC Flats	Auto Mixed AADC Flats		$0.096	$0.132	85.7%	72.7%
Auto 3-Digit Flats	Auto ADC Flats		$0.043	$0.069	86.0%	62.3%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.147	$0.207	85.5%	71.0%

The actual passthrough of every one of these discounts was less than the passthroughs when filed. Furthermore, of the five discounts that when filed satisfied the 85 percent minimum threshold later adopted by the Commission in Docket No. RM2017-3, none in fact met that minimum passthrough during FY 2021.

Rates from Docket No. R2021-1 superseded the Docket No. R2020-1 rates on January 24, 2021, and remained in effect for the majority of FY2021, until August 29, 2021. Figure 6 compares the passthroughs calculated by the Postal Service at the time of filing (based on FY2019 costs) with the passthroughs actually experienced during FY2021 as presented in the *ACR*:

Figure 6 (R2021-1 Discounts compared to *ACR* Costs)

Category	Benchmark		Discount	Avoided Cost (FY21)	P/T (as filed)	P/T (actual)
AADC Mixed Letters	Metered Letters		$0.060	$0.073	89.6%	82.2%
AADC	Auto Mixed		$0.022	$0.026	88.0%	84.6%
Auto 5-Digit	Weighted average AADC & 3-Digit		$0.030	$0.042	78.9%	71.4%
Auto ADC Flats	Auto Mixed AADC Flats		$0.108	$0.132	88.5%	81.8%
Auto 3-Digit Flats	Auto ADC Flats		$0.045	$0.069	85.7%	65.2%
Auto 5-Digit Flats	Auto 3-Digit Flats		$0.158	$0.207	87.8%	76.3%

The column on the right shows the actual passthroughs experienced by First-Class workshare mailers for the majority of FY2021. Again, although closer than the earlier discounts, none of these passthroughs achieved the minimum 85 percent passthrough threshold adopted by the Commission in Docket No. RM2017-3 and codified in Rule 3030.284(e).

And as Figure 4 above showed, even the passthroughs for the *current* discounts that took effect on August 29 have, with one exception, already fallen below the 85 percent threshold. If one totals the cumulative discounts and passthroughs currently in effect, the Automation 5-Digit Letter discount passes through only 73.75 percent of the cumulative costs avoided from the Automation Mixed AADC Letter category, a plainly inefficient pricing signal for the largest volume category in the class.

The conclusion is unavoidable that none of the First-Class workshare discounts of interest to NPPC in effect anytime throughout FY2021 were economically efficient and rarely in fact achieved even the minimum 85 percent passthrough that Rule 3030.284(e) sets as the presumptive minimum.

Had the Postal Service set workshare discounts at 100 percent passthroughs In Dockets Nos. R2020-1, R2021-1, and R2022-1, the discounts would have been (i) more economically efficient at the outset, (ii) more likely to remain closer to 100 percent passthroughs as costs changed, and (iii) thus better advanced the statutory objective of maximizing efficiency. While there can be no guarantee that costs avoided will not change so much as to render those discounts inefficient,[5] the closer the discounts are set to optimal passthroughs at the outset, the more likely they will be to be efficient when they are in effect.

B. Rule 3030.284 Should Be Modified

The Commission has repeatedly held that the optimal pricing of workshare discounts is, consistent with the economic principle of Efficient Component Pricing, to set the passthroughs at 100 percent. *E.g.,* Order No. 4257, Docket No. RM2017-3, at 130-138 (Dec. 1, 2017); Order No. 1320, Docket No. 2010-13, at 3 (Apr. 20, 2012). The Commission has also determined that this policy promotes the statutory objective of maximizing incentives to reduce costs and improve efficiency in postal operations. *See* 39 U.S.C. §3622(b)(1). To advance this statutory policy, the Commission in

[5] Even in Docket No. R2021-2, discounts that facially complied with the new rule (*e.g.*, First-Class Automation Flats) already have fallen below the 85 percent threshold.

Docket No. RM2017-3 adopted Rule 3030.284 to address the Postal Service's history of pricing workshare discounts uneconomically.

Rule 3030.284 provides, in relevant part, that:

- If a discount is below the cost avoided, the new discount must be at least 20 percent more than the existing discount (39 C.F.R. §3030.284(c)); and
- For discounts below avoided costs, the passthrough must be at least 85 percent (39 C.F.R. §3030.284(e)).

Rule 3030.284(e), however, does not ensure that workshare discounts will be priced efficiently. That is for two reasons. First, the Postal Services uses a prior year's costs avoided as the basis for setting future discounts. As noted above, this mismatch between rates and costs is inherent in the current system and changing that practice would involve many considerations beyond the scope of this proceeding.

Beyond the use of historical costs, a second reason why Rule 3030.284 is unlikely to achieve the Commission's goal of economic efficiency is that it allows the Postal Service to set a workshare discount as low as 85 percent without penalty. 39 C.F.R. §3030.284(e). And for discounts that are already below costs avoided, the rule requires merely that the Service adjust the amount of the *discount* by a minimum of 20 percent, but without specifically taking into account the amount by which *avoided costs themselves* may have changed. 39 C.F.R. §3030.284(c); see Order No. 5763 at 216-218. Subpart (e) does not address the situation in which the *avoided costs* increase by 20 percent or more, leaving the discount passthrough no closer to 100 percent. As postal costs increase, and as per-unit costs may increase due to declines in density and other factors, costs avoided by worksharing may increase but the rule does not truly force discounts to efficient levels.

The Commission should initiate a rulemaking proceeding to address this problem. NPPC recommends that the Commission consider the following change:

- Modify rule 3030.284(e) to require all workshare discounts to be set so as to passthrough at least 95 percent of the costs avoided unless the Postal Service can justify, by substantial evidence, an exception. In particular, the Commission should delete Rule 3030.284(c) and modify current Rule 3030.284(e) by replacing “85 percent” with “95 percent.”

This recommendation would more faithfully implement Objective 1 and the Commission’s longstanding and correct preference for economically efficient pricing of discounts. It would also reduce the likelihood that workshare discounts stray as far from optimal levels as they have in recent years.

III. THAT FIRST-CLASS FLATS ARE NOW REPORTEDLY UNDERWATER IS AN INDICATION OF THE POSTAL SERVICE’s CONTINUED FAILURE TO CONTROL FLATS COSTS AND THE INADEQUACY OF REMEDIES TRIED TO DATE

It is no secret that the Postal Service has struggled with flats costs for more than a decade.[6] The Commission’s Annual Compliance Determination for FY2020 (at 20-42) reviewed the history of underwater flats at some length. The current ACR reports that the problem has now reached the First-Class Flats product which, for the first time, failed to generate sufficient revenues to cover its attributable costs.

[6] The Commission first asked the Postal Service to provide additional information about flats in the FY2010 Annual Compliance Determination. The Commission adopted reporting requirements applicable to all flats products in Docket No. RM2018-1. *See* 39 C.F.R. §3050.50(f). The Postal Service filed the required response as Library Reference USPS-FY21-45.

The problem of flats costs exceeding flats revenue has existed for some time in USPS Marketing Mail and in Periodicals, classes with persistently lower cost coverages than First-Class Mail. This *ACR* is the first time that the problem has reached First-Class Flats, although revenues for that product only barely covered costs in FY2020. *See* PRC FY2020 Financial Report, Appendix A (cost coverage of 100.2 percent).

Both First-Class Flats volumes and cost coverage have declined in recent years. Unit costs, however, have continued to rise. And although the presort mix for Automation Flats has shifted more towards 5-Digit, the Postal Service apparently either has not captured the corresponding cost savings, or any such savings have been overwhelmed by other costs.

What is clear, however, is that none of the factors which the Postal Service blames for the declining cost coverage of First-Class Flats is the responsibility of those Flats that remain in the system. Indeed, the shift in the volume mix towards Automated Presort Flats, and within that category to the more finely presorted 3-Digit and 5-Digit levels (*USPS LR-44,* Rule 3050.50 Flats Paragraph B Narratives at 5), should have reduced per-unit costs, everything else being equal.

But not everything else was equal. The Postal Service's ACR attributes the increase in unit attributable costs for First-Class Mail Flats (total costs have declined, but not as fast as volume) on:

- Lower productivity on flats processing machines, resulting in a 4.1 percent increase in mail processing unit cost (*ACR* at 9 & *USPS LR-44,* Rule 3050.50 Flats Paragraph B Narratives at 2);

- An increase of 12.3 percent in per-piece purchased transportation costs, partly due to a change in costing methodology approved in Docket No. RM2021-1, Proposal Seven (ACR at 9); and
- Revenue per-piece increasing less quickly than cost per-piece, partly due to a shift in the mix to more efficiently prepared 5-Digit Presorted Flats (*ACR* at 9-10 & *USPS LR-44,* Rule 3050.50 Flats Paragraph B Narratives at 5).

None of these, of course, are the fault of those First-Class Flats that remain in the system. There is no suggestion, for example, that current First-Class flats are more difficult for the flats processing machines to handle; higher per-unit costs are simply a matter of the costs, including fixed or essentially fixed costs, being spread among fewer pieces.

Nor are higher personnel costs caused by mailers. Employee pay and hires are matters left to postal management, not mailers. And higher transportation costs are due to many factors outside of the mailers' control.

In short, none of the reasons offered for the falling cost coverage of First-Class Flats is due to the pieces themselves. Indeed, the Flats pieces have become more efficient; the volumes of 5-Digit flats have actually increased from FY 2013 to FY 2020. *USPS LR-44,* Rule 3050.50 Flats Paragraph B Narratives at 5.

The continued inability of flats products in different classes to cover costs, despite more than a decade of exhortations by the Commission, the imposition of a plethora of reporting requirements, and higher rates, is evidence that the remedies tried to date have not proven very effective. The spreading of the problem to First-Class Flats is further evidence that the problems are deep rooted. Perhaps the Commission and Postal Service should try a different approach—one that addresses the problem of increasing per-unit costs by trying to increase the number of pieces. Offering lower, rather than higher, prices for flats is more likely to do so than the unsuccessful tactics of the past decade.

There is no reason why the increasingly efficient First-Class Flats mail should face higher prices because less efficient Flats have left the mailstream. NPPC acknowledges that the Postal Service believes that the latest price increase for First-Class Flats will ameliorate the decline in cost coverage. *ACR* at 10. However, on its face Rule 3030.221 does not allow the Postal Service any discretion not to charge Flats two percent above the class average in the next rate adjustment. The Commission should revisit that rule.

IV. FIRST-CLASS MAIL SERVICE QUALITY REMAINS UNACCEPTABLE

Perhaps the least surprising news in the *ACR* is that the Postal Service once again failed to achieve its advertised service standards for First-Class Presort Mail. *See* LR USPS-FY29-21 Tab FCM On-Time Performance. Service for First-Class Flats was worse still. *Id*. & data cited in *Chairman's Information Request No. 2*, Q4. This poor service quality continues to diminish the value of First-Class Mail, and NPPC fears that the reduced service standards that took effect on October 1, 2021, outside of the period covered by this *ACR*, merely cement the reduced value of First-Class Mail and the Postal Service's evident declining interest in bolstering it.

NPPC also notes that the *ACR* contains no report on the service quality provided to remittance mail. The importance of service quality for First-Class remittance mail was discussed in some depth in Docket No. N2021-1. Nevertheless, it is not surprising that the ACR does not address remittance mail, as the Commission's current regulations do not require that it do so. NPPC urges the Commission to modify the reporting requirements to specifically include a report on service quality accorded remittance mail.

Overall, there is little new in the *ACR*. Every year the Postal Service blames service problems on weather or other factors. However, adverse weather and other factors are normal occurrences, and the postal system should anticipate them and be prepared to overcome them. Covid-19 has brought additional challenges, but FY 2021 was the second year in which the Postal Service has dealt with them.

The Postal Service states that increased package volume during the peak season of FY 2021 "contributed to poor First-Class Mail and Marketing Mail performance during peak season and subsequent months." *ACR* at 49. While NPPC members greatly appreciate the hardworking and courageous postal employees who dealt with these strains on the system while facing a serious pandemic, they strongly resent that the Postal Service's declared decision to pivot to a packages-focused business is impairing the quality of service provided to First-Class Mail.

NPPC is gratified that service for Presort Letters/Cards improved by the fourth quarter. *ACR* at 52. However, the Commission should note that the Postal Service is patting itself on the back not for meeting the *service standards*, but instead for improving its performance in the second half of FY 2021 towards its unilaterally defined service "*targets*."[7] *ACR* at 51. The targets inherently assume that the Postal Service will not achieve the published service standard 100 percent of the time.[8]

While the Postal Service uses performance "targets" for internal purposes, focusing on such targets instead of the official service standards merely lowers the bar yet more. It deserves no credit for achieving "targets" that are less than the actual service standards. For FY 2022, of course, the Postal Service has even reduced the service standards for First-Class and Periodicals Mail, and for some Package services as a result of Docket No. N2021-1.

In perspective, while service quality for First-Class Presort Letters and for First-Class Flats yet again failed to meet their service standards, First-Class Mailers nonetheless were hit by two rate increases that cumulatively far exceeded the rate of inflation. And the Postal Service has acknowledged that even the newly reduced service standards will not be met for years. *United States Postal Service Fiscal Year 2021 Annual Report to Congress* at 35-36. Combining skyrocketing prices with slower service is not increasing the value or attractiveness of First-Class Mail, as demonstrated by the steady declines in volume of what is by law a monopoly product.

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[7] And even the targets themselves were set artificially low because they reflected the poor service in the first half of FY 2021. *ACR* at 51.

[8] Service standards are the advertised expected days for delivery. "Targets" are internal Postal Service goals for processing and delivery. *See* Docket No. N2021-1, USPS-T-1 at 11 n.8 (Cintron) & MH/USPS-T-6 (Cintron). NPPC notes that in his testimony, Mr. Cintron stated that the Postal Service expected to set service performance targets at 95 percent once the new service standards were in place. Docket No. N2021-1, USPS-T-1 at 11, n.8. In fact, however, the FY 2022 targets for First-Class Presort and Flats Mail are below 95 percent. *See* FY 2021 Annual Report to Congress at 33.

V. CONCLUSION

The National Postal Policy Council urges the Commission to consider these comments as it evaluates the Postal Service's Annual Compliance Report, and to initiate a rulemaking to improve Rule 3030.284 as described herein.

Respectfully submitted,

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