

Presentation to NPPC

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Overview of Presentation

- ▶ Summary of FY 2022 Financial Report
 - ▶ Income Statement Highlights
 - ▶ Balance Sheet Summary
 - ▶ Workforce Analysis
 - ▶ Non-Labor Costs
 - ▶ FCM, USPS Marketing Mail, and Competitive Products summaries
- ▶ Overview of OAC
 - ▶ Staffing and Role
 - ▶ Annual Reports
 - ▶ Rate Cases
 - ▶ Rulemakings
 - ▶ Other Dockets and Projects

	FY 2021	FY 2022	\$ Change	FY 2022 Plan	\$ Change from Plan
Net Operating Revenue	\$ 77,041	\$ 78,620	\$ 1,579	\$ 77,483	\$ 1,137
Operating Expense as Reported by the Postal Service	81,844	22,595	(59,249)	85,713	(63,118)
Less: Amortization of RHB Unfunded Liability	(907)	56,975	57,882	(1,000)	57,975
Amortization of CSRS Unfunded Liability	(1,858)	(2,284)	(426)	(1,858)	(426)
Amortization of FERS Unfunded Liability	(1,401)	(1,627)	(226)	(1,402)	(225)
Non-Cash Change to Workers' Compensation Liability	1,925	3,454	1,529	0	3,454
Net Operating Expense	\$ 79,603	\$ 79,113	\$ (490)	\$ 81,453	\$ (2,340)
Interest Income	28	192	164	30	162
Interest Expense	155	171	16	151	20
Net Income (Loss) from Operations	\$ (2,689)	\$ (472)	\$ 2,217	\$ (4,091)	\$ 3,619
Amortization of RHBF Unfunded Liability	\$ 907	\$ 0	(907)	1,000	(1,000)
Amortization of CSRS Unfunded Liability	1,858	2,284	426	1,858	426
Amortization of FERS Unfunded Liability	1,401	1,627	226	1,402	225
Non-Cash Change to Workers' Compensation Liability	(1,925)	(3,454)	(1,529)	0	(3,454)
Net Loss (Excluding PSRA Adjustment)	\$ (4,930)	\$ (929)	\$ 4,001	\$ (7,351)	\$ 6,422
PSRA Adjustment for Reversal of Unpaid RHBF Expenses		(56,975)	(56,975)	1,000	(57,975)
Total Net Income/(Loss)	\$ (4,930)	\$ 56,046	60,976	\$(8,351)	64,397

Postal Service Income Statements, FY 2021 and FY 2022

Income Statement Highlights

The PSRA cancelled \$57 billion in outstanding retiree health benefit liability, annual payments for the retiree health benefits normal costs, and RHBF amortization

Effects include removal of approximately \$4 billion in RHB normal costs and approximately \$1 billion in RHBF amortization for FY 2022

Total net loss before the PSRA adjustment is \$0.9 billion; \$2.2 billion less than FY 2021

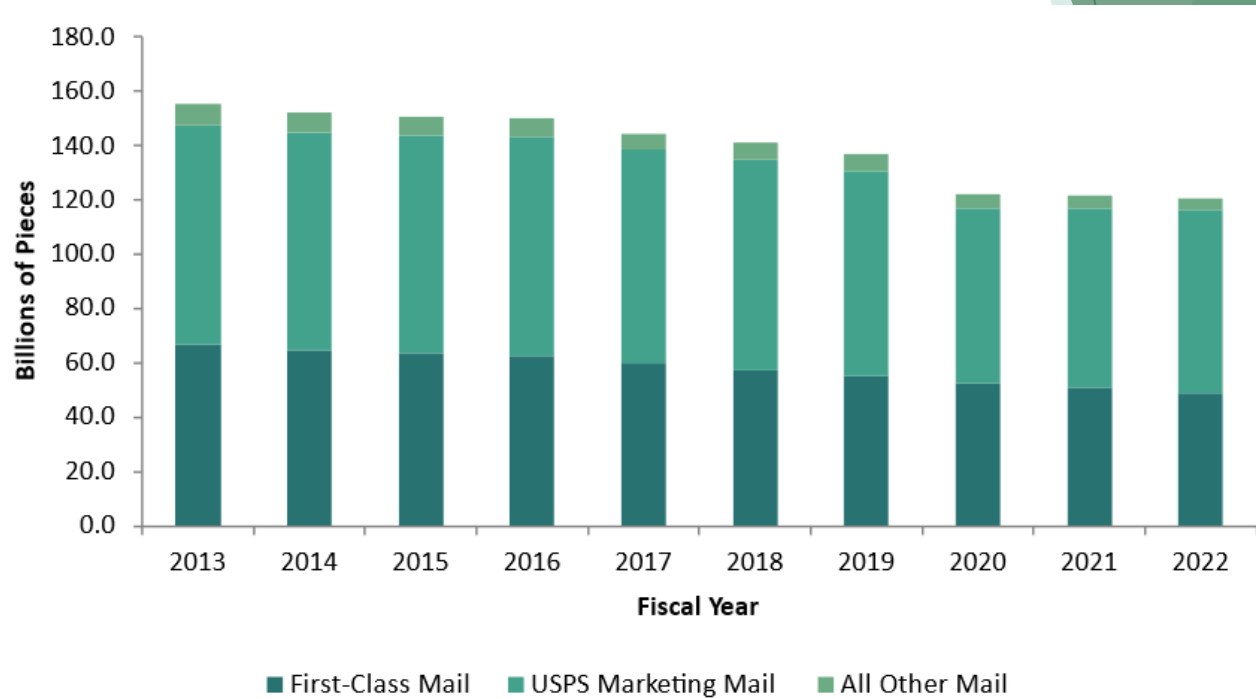
Revenue is \$1.6 billion higher compared to SPLY

Operating Expenses are \$0.5 billion lower

The Postal Service is still required to make annual amortization payments for unfunded FERS and CSRS liabilities

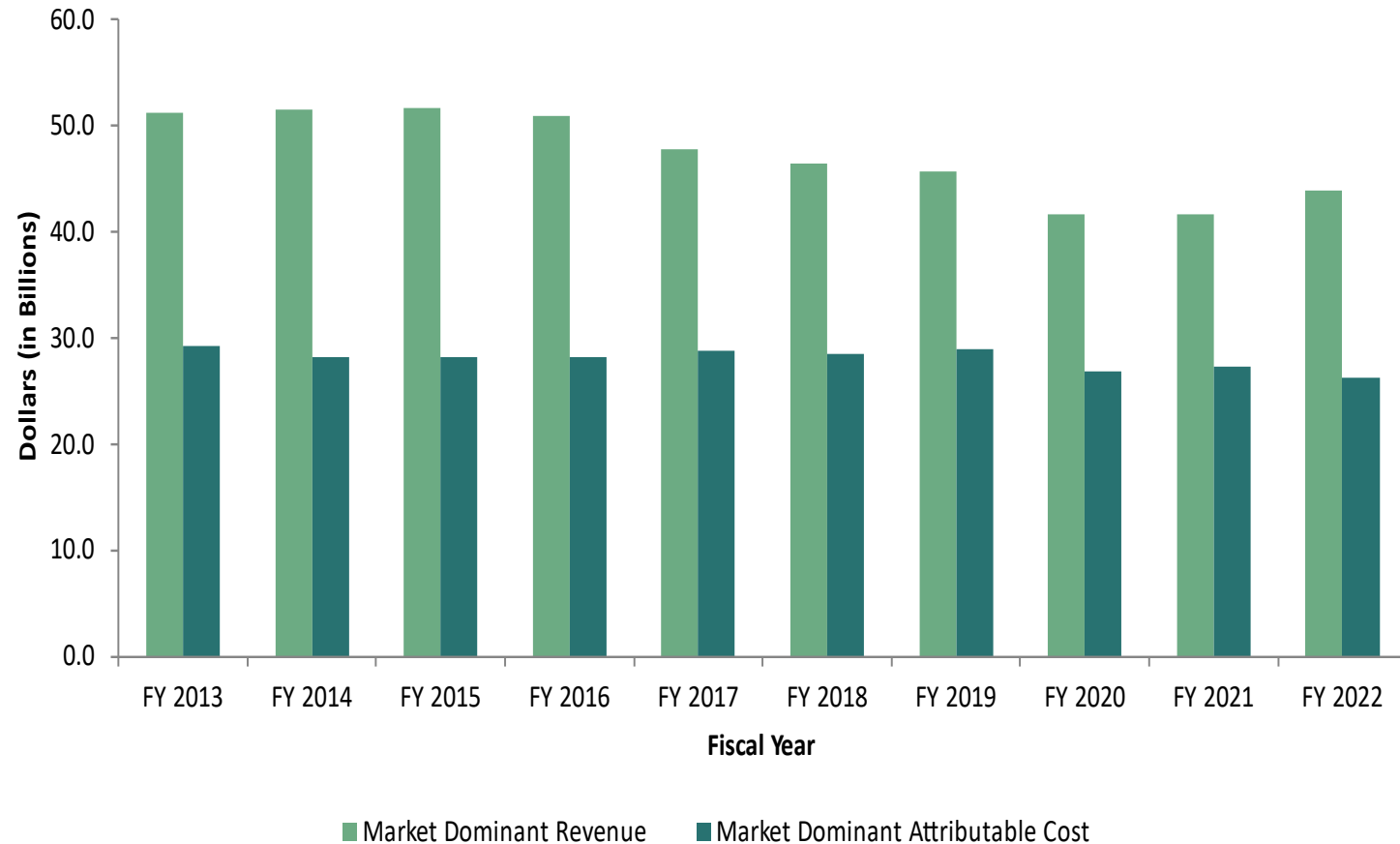
[Financial Report Dashboard](#) available at prc.gov under “Reports/Data Service Reports”

Market Dominant Volume, FY 2013 - FY 2022



- ▶ Market Dominant volume declined by 37 billion pieces over the last 10 years
- ▶ First-Class Mail volume declined every year; losing 20.7 billion pieces over the same time period
- ▶ USPS Marketing Mail accounts for 34.3 percent of Market Dominant volume decline

Market Dominant Revenue and Attributable Cost



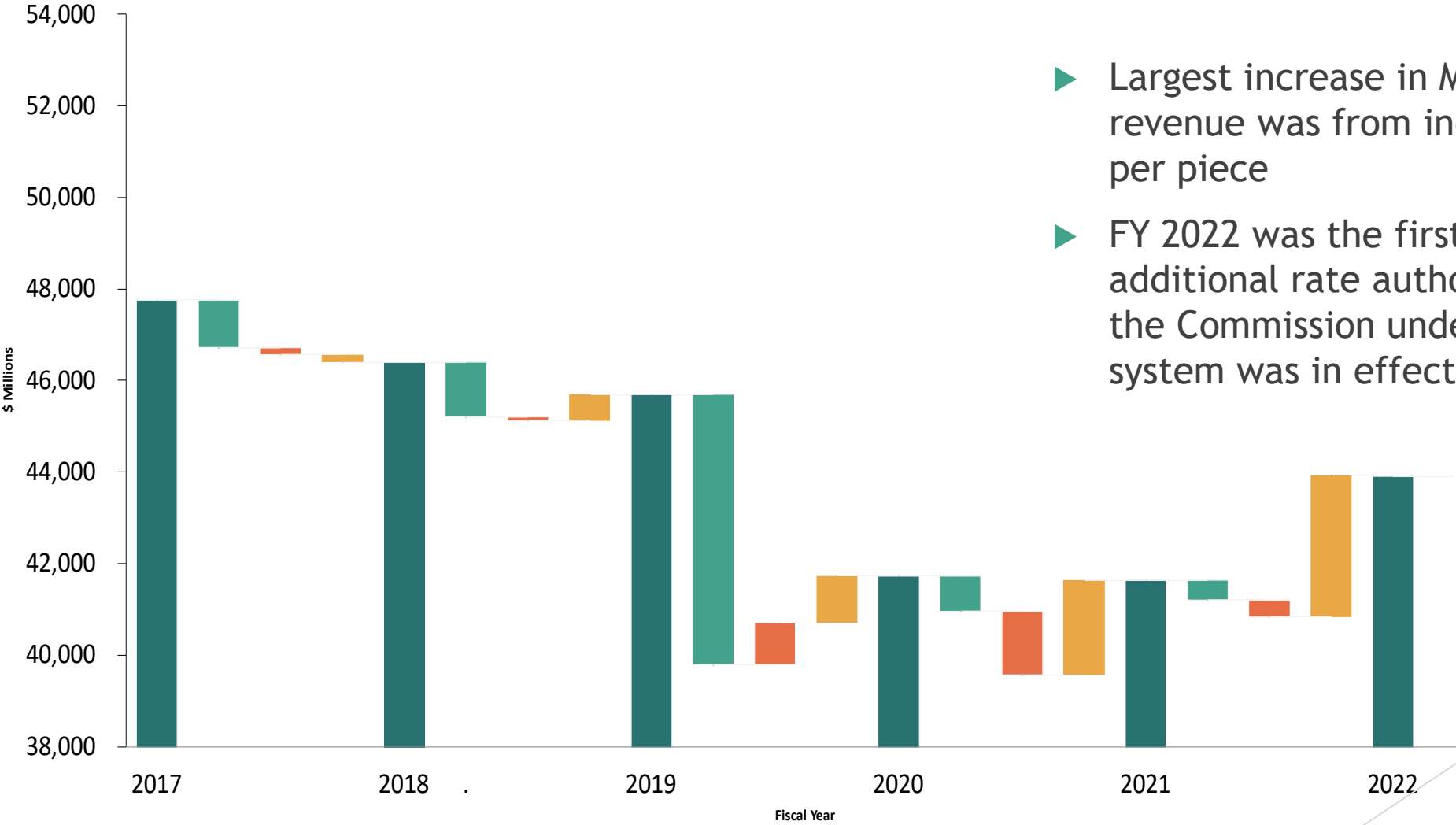
Market Dominant revenue increased by 5.5 percent

Market Dominant attributable cost decreased by 3.5 percent

Over the last 10 years, Market Dominant revenue declined by 16.8 percent and attributable cost declined by 18.2 percent

Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Change in Market Dominant Revenue (Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece)



- ▶ Largest increase in Market Dominant revenue was from increases in revenue per piece
- ▶ FY 2022 was the first full year in which additional rate authority authorized by the Commission under the revised system was in effect

■ Total Revenue ■ Change in Revenue from Volume
■ Change in Revenue from Mail Mix ■ Change in Revenue from Rev/Piece

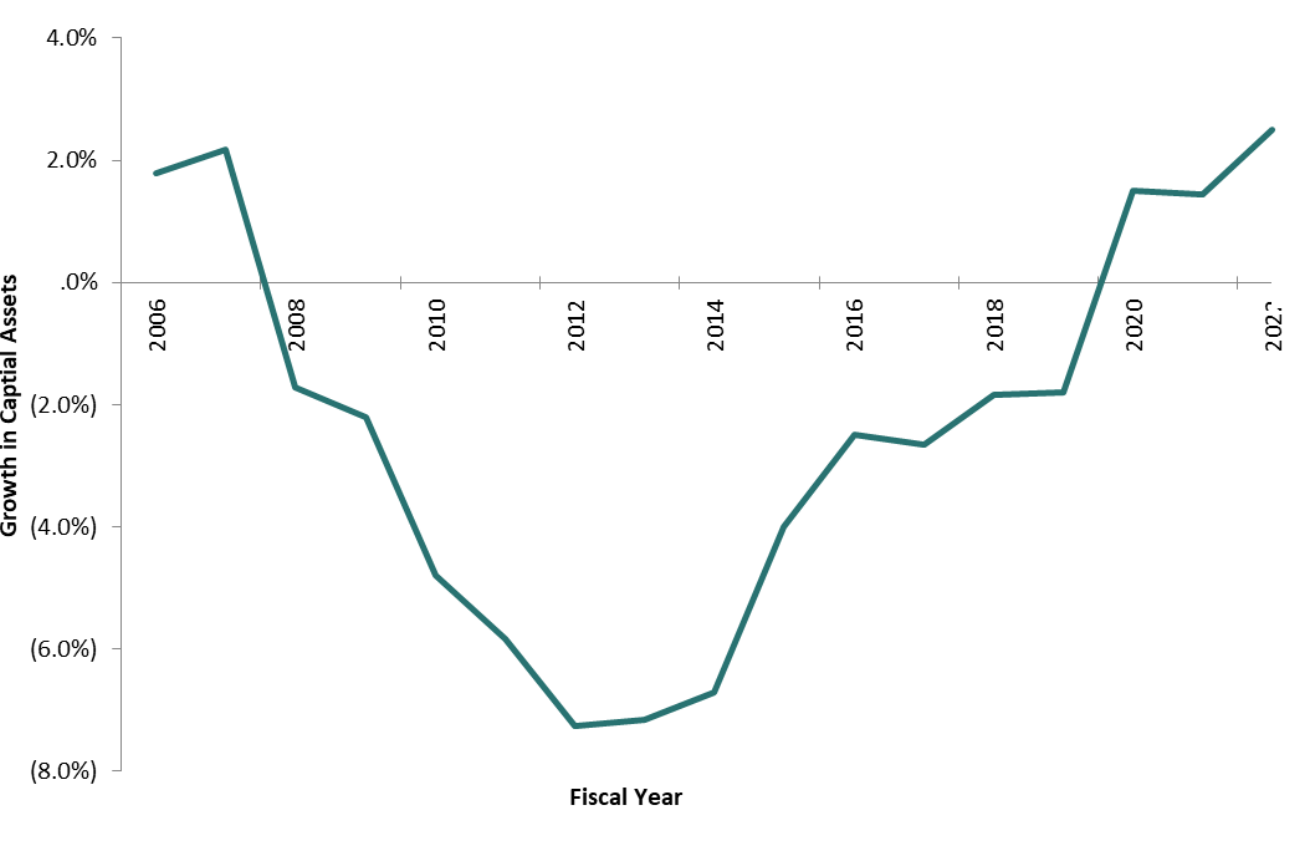
Postal Service Balance Sheets, FY 2021 and FY 2022

- ▶ Current liabilities decreased by \$55.2 billion with the removal of the unpaid RHBF liability
- ▶ Restricted cash increased \$3 billion in September 2022 from the Inflation Reduction Act funds provided for zero-emission vehicles and supporting infrastructure

Assets	FY 2021	FY 2022	\$ Change	% of Total Assets	
				FY 2021	FY 2022
Cash and Cash Equivalents (includes Restricted Cash)	\$ 24,307	\$ 20,618	\$ (3,689)	52.4%	44.7%
Receivables	1,412	1,326	(86)	3.0%	2.9%
Supplies and Prepayments	189	252	63	0.4%	0.5%
Total Current Assets	25,908	22,196	(3,712)	55.8%	48.1%
Noncurrent Assets	20,497	23,919	3,422	44.2%	51.9%
Total Assets	\$ 46,405	\$ 46,115	\$ (290)	100.0%	100.0%

Liabilities	FY 2021	FY 2022	\$ Change	% of Total Liabilities	
				FY 2021	FY 2022
Retiree Benefits	\$ 56,975	\$ -	(56,975)	46.7%	0.0%
Short-Term Debt	1,000	-	(1,000)	0.8%	0.0%
Deferred Revenue-Prepaid Postage	2,623	2,519	(104)	2.1%	4.0%
Other Current Liabilities	26,731	29,628	2,897	21.9%	47.2%
Total Current Liabilities	87,329	32,147	(55,182)	71.5%	51.2%
Workers' Compensation Costs, Noncurrent	16,849	13,418	(3,431)	13.8%	21.4%
Long-Term Debt	10,000	10,000	-	8.2%	15.9%
Other Noncurrent Liabilities	7,907	7,184	(723)	6.5%	11.4%
Total Noncurrent Liabilities	34,756	30,602	(4,154)	28.5%	48.8%
Total Liabilities	\$ 122,085	\$ 62,749	\$ (59,336)	100.0%	100.0%

Growth in Capital Assets

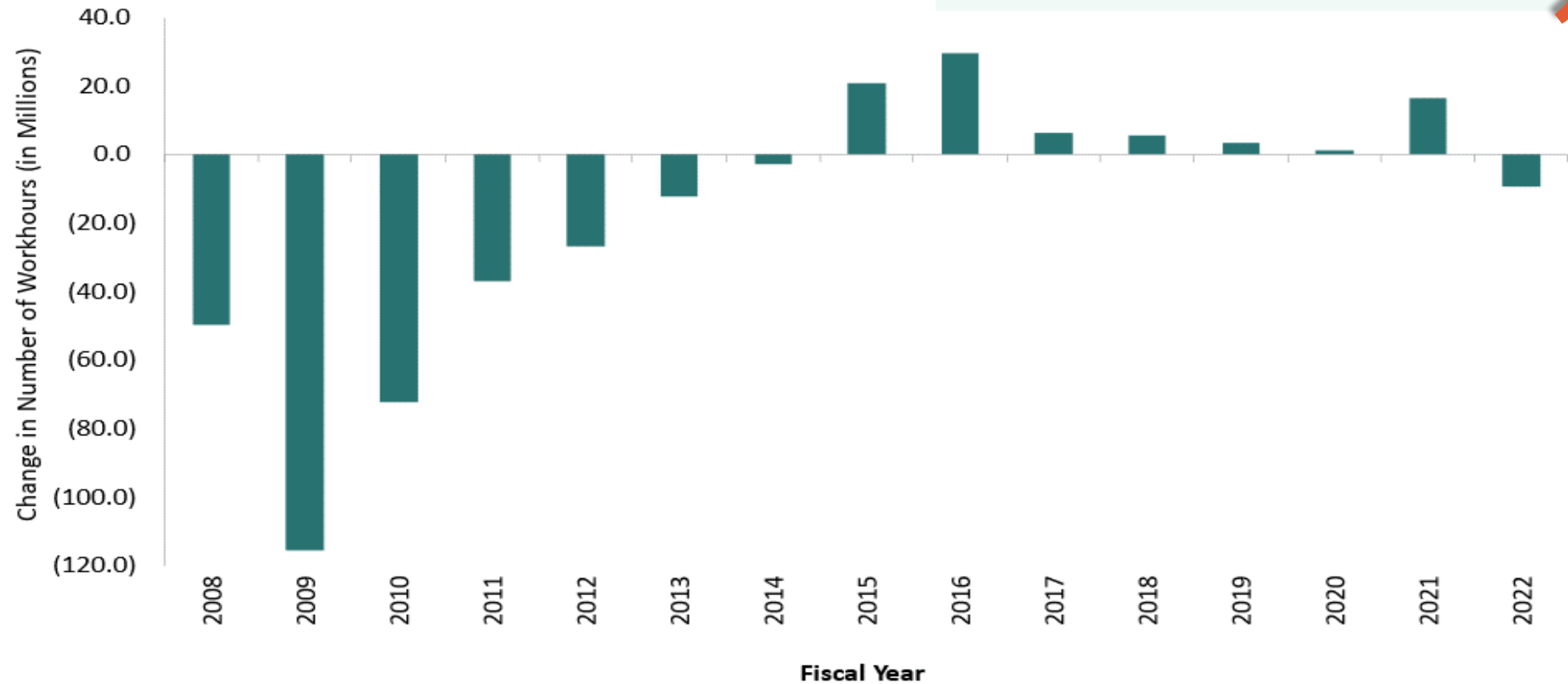


► FY 2022 recorded the highest growth in capital assets since PAEA

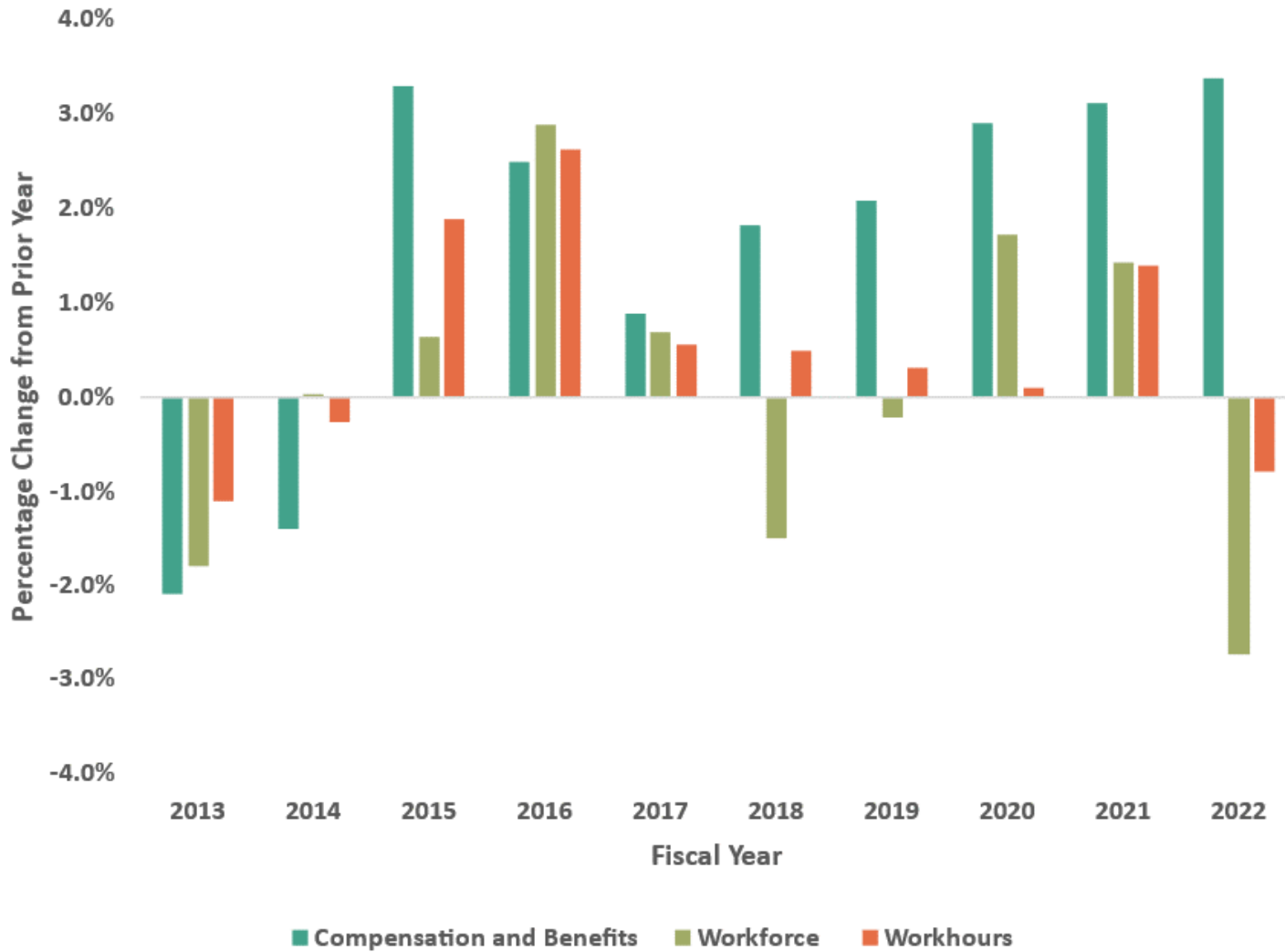
► Property and equipment purchases of \$1.8 billion offset depreciation of \$1.7 billion

Change in Total Workhours, FY 2008 - FY 2022

“ DURING FY 2022, TOTAL WORKHOURS DECREASED FOR THE FIRST TIME SINCE FY 2014 BY APPROXIMATELY 10 MILLION CONSISTENT WITH DECLINING FIRST-CLASS AND PACKAGE VOLUMES. ”



Breakdown of Workforce, FY 2013-FY 2022



- Workhours decreased for the first time in 8 years by 0.8 percent
- The postal workforce decreased by 17,750, or 2.7%
- The impact of inflation is seen in the higher compensation expense which increased by 3.4% (\$1.4 billion)

Non-Personnel Operating Expenses

EXPENSES INCREASED BY \$2 BILLION WITH HIGHER COSTS FOR FUEL SUPPLIES AND SERVICES, AND RENT AND UTILITIES.

	FY 2021	FY 2022	\$ Change	% Change
Transportation	\$ 9,652	\$ 10,281	\$ 629	6.5%
Supplies and Services	2,945	3,189	244	8.3%
Depreciation and Amortization	1,668	1,677	9	0.5%
Rent and Utilities	1,790	1,981	191	10.7%
Vehicle Maintenance Services	633	703	70	11.1%
Delivery Vehicle Fuel	526	795	269	51.1%
Information Technology and Communications	987	1,134	147	14.9%
Rural Carrier Equipment Maintenance	563	644	81	14.4%
Miscellaneous Other	1,089	1,403	314	28.8%
Total Other Non-Personnel Expenses	\$ 19,853	\$ 21,807	\$ 1,954	9.8%

Purchased Transportation % Change from SPLY, FY 2020 - FY 2022

- ▶ The largest portion of the increase occurred in Domestic Highway
- ▶ Domestic Air costs increased 1.9 percent
- ▶ Highway transportation costs in all quarters were impacted by higher fuel prices, increases in miles driven and higher average unit costs per mile
- ▶ Higher jet fuel prices increased air transportation costs

	Percent Change from SPLY			
	Q1	Q2	Q3	Q4
FY 2020 over FY 2019				
Domestic Air	(4.5%)	3.9%	20.3%	34.3%
Domestic Highway	7.3%	(1.7%)	7.3%	7.8%
Purchased Transportation Total Cost	2.4%	0.4%	10.8%	18.9%
FY 2021 over FY 2020				
Domestic Air	13.7%	18.4%	(4.4%)	(6.1%)
Domestic Highway	7.2%	16.7%	16.2%	18.5%
Purchased Transportation Total Cost	8.5%	16.7%	8.4%	5.2%
FY 2022 over FY 2021				
Domestic Air	4.7%	(9.6%)	0.3%	11.6%
Domestic Highway	14.1%	11.8%	9.9%	14.0%
Purchased Transportation Total Cost	9.2%	0.5%	3.5%	12.1%

FCM Letters Volume and Revenue, FY 2021 and FY 2022

	Mail Volume			
	(Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022		
Single-Piece	13,484	12,406	(1,079)	(8.0%)
Presorted	33,344	32,170	(1,174)	(3.5%)
Total Letters	46,829	44,576	(2,253)	(4.8%)

	Mail Revenue			
	(\$ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022		
	7,471	7,199	(272)	(3.6%)
	13,510	14,154	645	4.8%
	20,980	21,353	373	1.8%



First-Class Mail letters volume declined by 4.8 percent; an even larger decrease than during the COVID-19 pandemic (4.2 percent in FY 2021 and 4.5 percent in FY 2020)



First-Class Mail letters revenue increased by 1.8 percent due to the August 2021 price increase



Unit revenue increased from 45 cents per piece in FY 2021 to 48 cents in FY 2022

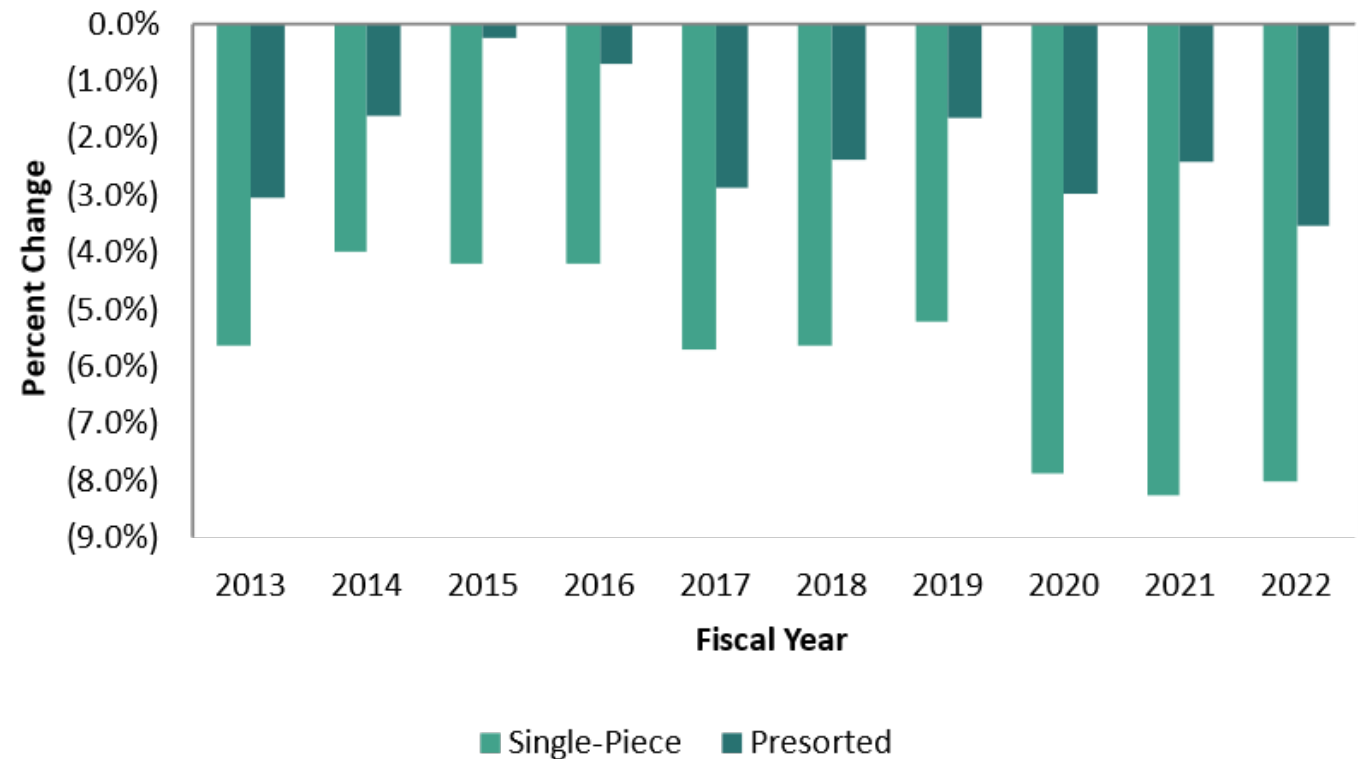
FCM Letters Attributable Cost, FY 2021 and FY 2022

- ▶ First-Class Mail letters attributable cost decreased due to a sizable decrease in volume and the PSRA elimination of RHB pre-payment requirements
- ▶ City carrier street unit cost decreased 0.3 percent for single-piece letters and 3.6 percent for presorted letters compared
- ▶ Transportation costs increased substantially in FY 2022, with unit transportation costs increasing by 20.8 percent for single-piece letters and 7.3 percent for presorted letters.

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	4,960	4,614	(346)	(7.0%)	36.8	37.2	0.4	1.1%
Presorted	4,812	4,607	(205)	(4.3%)	14.4	14.3	(0.1)	(0.8%)
Total Letters	9,772	9,221	(551)	(5.6%)	20.9	20.7	(0.2)	(0.9%)

FCM Letters Percent Change in Volume, FY 2013 - FY 2022

- ▶ The rate of decline in First-Class Mail volume remains faster than before the COVID-19 pandemic
- ▶ The volume for single-piece letters declined about about 8 percent in each of the past three years
- ▶ The rate of decline in FCM presort letters was the highest in over a decade, at 3.5 percent



FCM Flats Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	(\$ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	619	551	(69)	(11.1%)	1,006	988	(19)	(1.8%)
Presorted	557	540	(17)	(3.0%)	537	603	66	12.2%
Total Flats	1,176	1,091	(85)	(7.2%)	1,544	1,591	47	3.0%

- ▶ FCM single-piece flats volume declined by 11.1 percent; presort flats decreased by 3 percent
- ▶ Single-piece flats revenue decreased by 1.8 percent; presort flats increased by 12.2 percent

FCM Flats Attributable Cost, FY 2021 and FY 2022

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	1,020	922	(98)	(9.6%)	164.7	167.4	2.7	1.6%
Presorted	537	538	0	0.1%	96.4	99.5	3.1	3.2%
Total Flats	1,560	1,462	(98)	-6.3%	132.6	134.0	1.4	1.0%



Single-piece flats attributable costs decreased by 9.6 percent; presorted flats costs were virtually unchanged

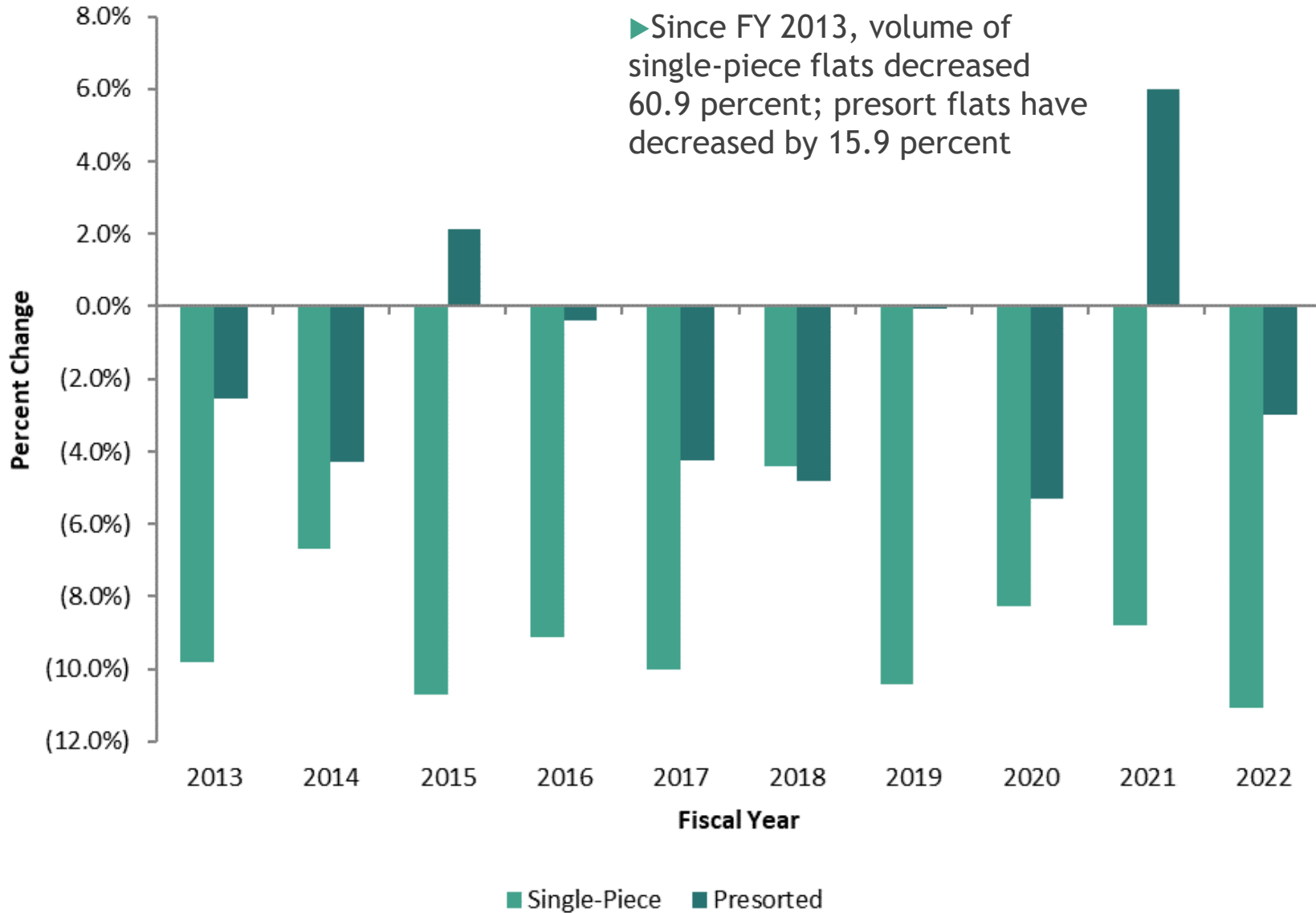


For single-piece flats, average unit attributable cost increased in city carrier in-office and transportation



For presort flats, costs increased in every segment in FY 2022

Percent Change in FCM Flats Volume, FY 2013 - FY 2022



USPS Marketing Mail Letters Volume and Revenue, FY 2021 and FY 2022

- ▶ USPS Marketing Mail Letters volume increased 6.0 percent but remains below pre-pandemic levels; High Density and Saturation Letters volume decreased 7.5 percent
- ▶ Revenue increased for all letter-shaped USPS Marketing Mail, due to the July 2022 price increase and the increase in volume
- ▶ High Density and Saturation Letters revenue increased slightly, due to a combination of lower volume and higher prices

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	(\$ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Letters	41,222	43,682	2,461	6.0%	8,986	10,243	1,256	14.0%
High Density and Saturation Letters	6,532	6,045	(487)	(7.5%)	1,129	1,132	3	0.3%
Total Letters	47,753	49,727	1,974	4.1%	10,115	11,375	1,260	12.5%

USPS Marketing Mail Letters Attributable Cost, FY 2021 and FY 2022

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Letters	5,143	5,356	213	4.1%	12.5	12.3	(0.2)	-1.7%
High Density and Saturation Letters	619	569	(49)	(8.0%)	9.5	9.4	(0.1)	-0.6%
Total Letters	5,762	5,926	163	2.8%	12.1	11.9	(0.2)	-1.2%

- Overall, attributable cost increased 2.8 percent for USPS Marketing Mail letters in FY 2022
- The average unit attributable cost for USPS Marketing Mail Letters has increased for four of the last 5 years, while the average unit cost of High Density and Saturation Letters has increased from FY 2014 to FY 2021

USPS Marketing Mail Flats Volume and Revenue, FY 2021 and FY 2022

- Volume for flat-shaped USPS Marketing Mail decreased by more than one billion pieces
- High Density and Saturation Flats/Parcels volume decreased by 5.5 percent
- Carrier Route volume decreased by 6.4 percent; EDDM-R and USPS Marketing Mail Flats decreased by 6.1 percent and 5.5 percent, respectively
- Total Revenue increased by 2.8 percent in FY 2022; Flats increased by 4.6 percent and Carrier Route increased by 5.2 percent

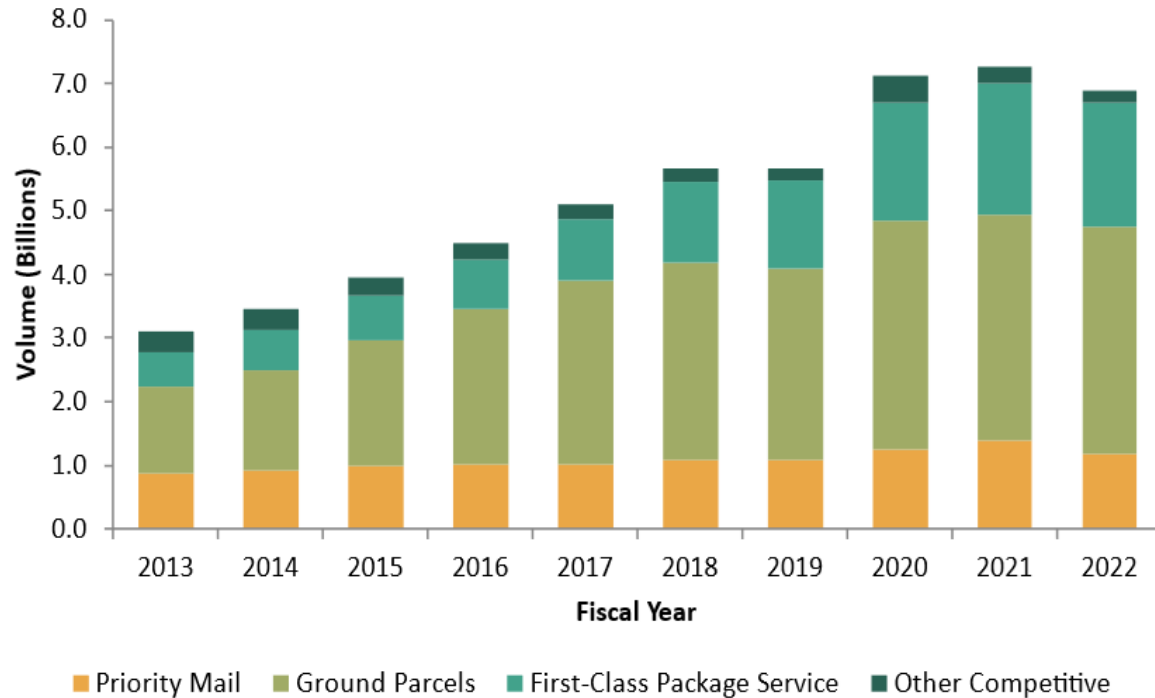
	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	(\$ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
High Density and Saturation Flats/Parcels	9,994	9,441	(554)	(5.5%)	1,790	1,791	0	0.0%
Carrier Route	5,042	4,718	(323)	(6.4%)	1,364	1,435	71	5.2%
Flats	2,869	2,694	(176)	(6.1%)	1,241	1,297	57	4.6%
Every Door Direct Mail – Retail	542	512	(30)	(5.5%)	104	102	(3)	(2.5%)
Total	18,447	17,364	(1,082)	(5.9%)	4,500	4,625	125	2.8%

USPS Marketing Mail Flats Attributable Costs, FY 2021 and FY 2022

- ▶ Total attributable cost decreased 3.8 percent due to the loss of flat-shaped USPS Marketing Mail volume
- ▶ Rural carrier unit costs increased for all USPS Marketing Mail flats products
- ▶ With the exception of Carrier Route, city carrier street unit costs increased for flat-shaped USPS Marketing Mail

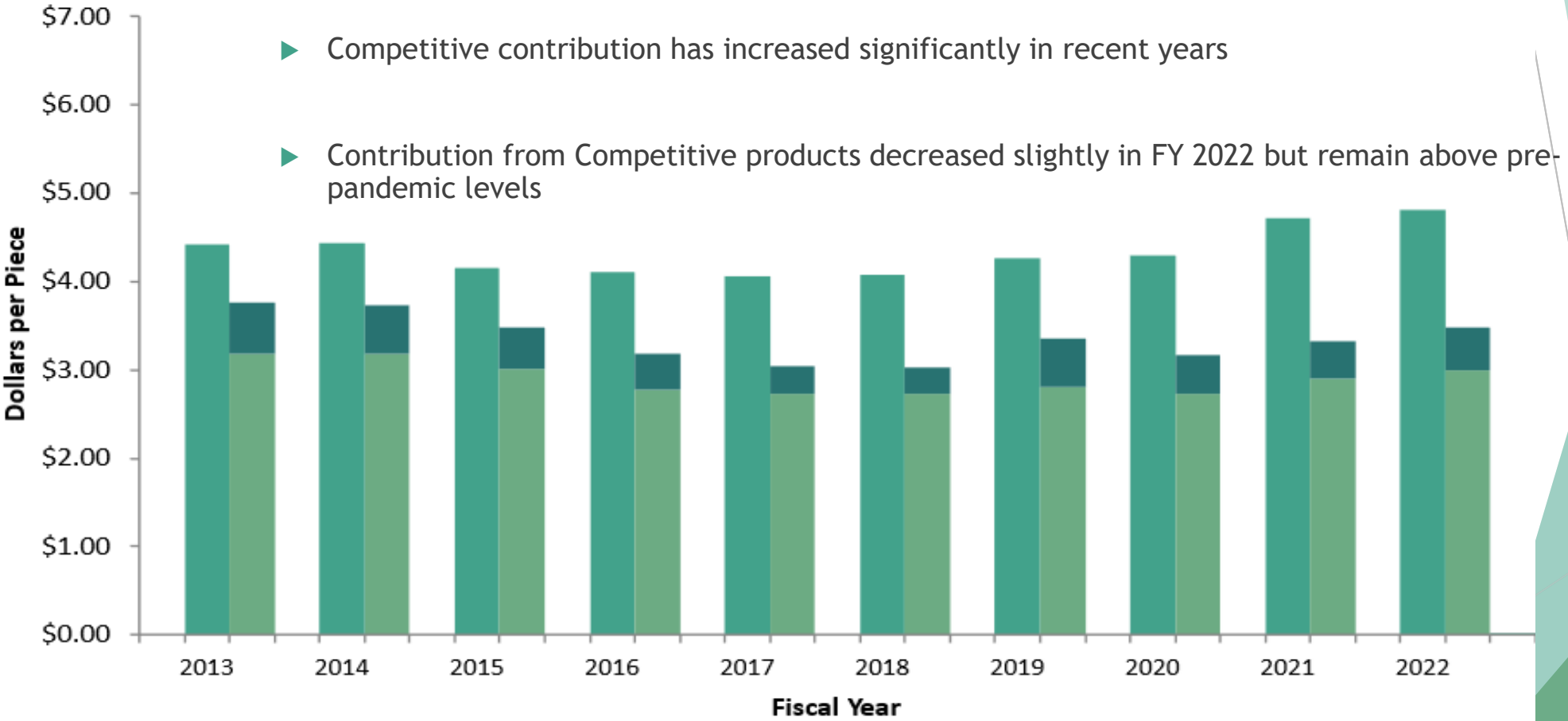
	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
High Density and Saturation Flats/Parcels	1,427	1,352	(76)	(5.3%)	14.3	14.3	0.0	0.3%
Carrier Route	1,442	1,443	2	0.1%	28.6	30.6	2.0	7.0%
Flats	2,058	1,946	(112)	(5.4%)	71.7	72.2	0.5	0.7%
Every Door Direct Mail – Retail	42	39	(3)	(8.2%)	7.8	7.5	(0.2)	-3.0%
Total	4,969	4,780	(189)	(3.8%)	26.9	27.5	0.6	2.2%

Competitive Products Volume by Category, FY 2013 - FY 2022



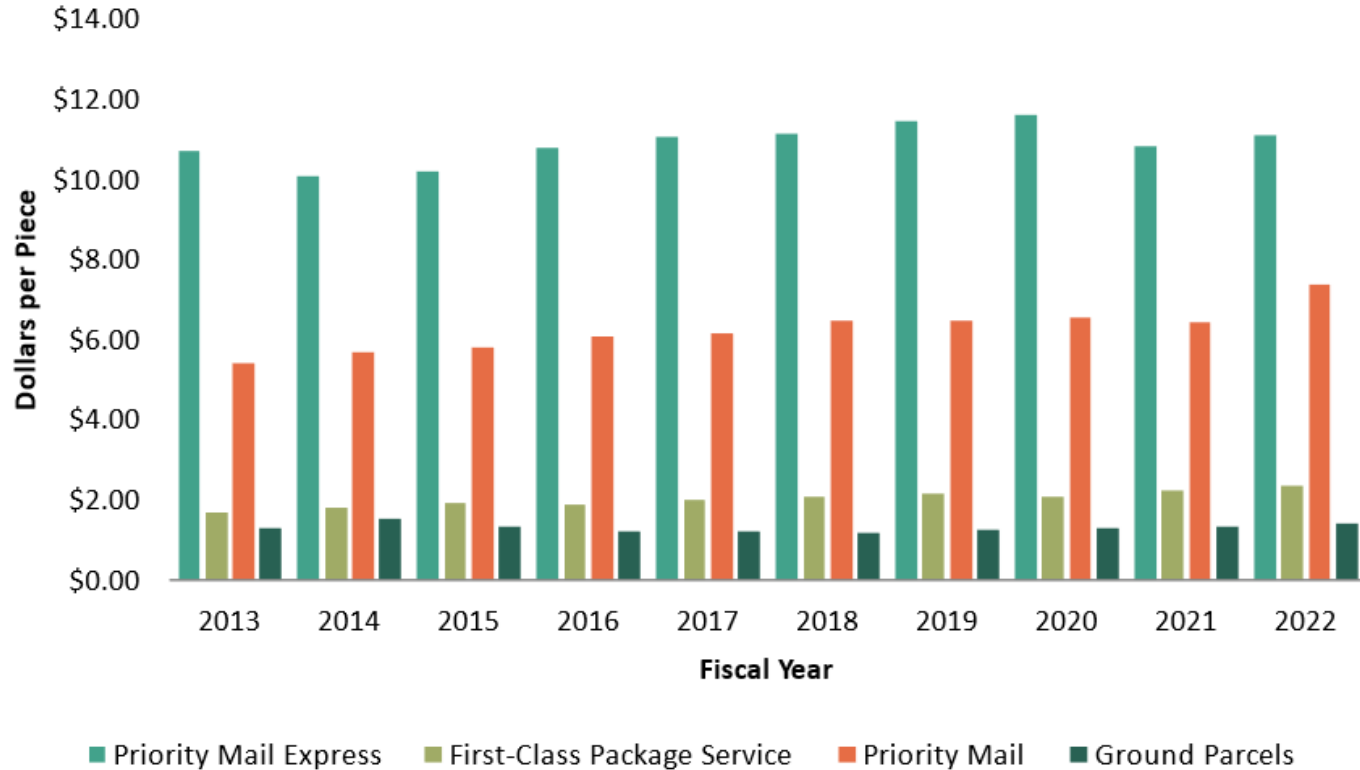
- ▶ After many years of significant increases, Competitive product volume decreased slightly in FY 2022
- ▶ FY 2020 and FY 2021 volumes were elevated due to pandemic related package volume surges

Competitive Average Unit Revenue and Cost, FY 2013-FY 2022



■ Average Revenue per Piece
 ■ Average Attributable Cost per Piece
 ■ Average Required Contribution per Piece

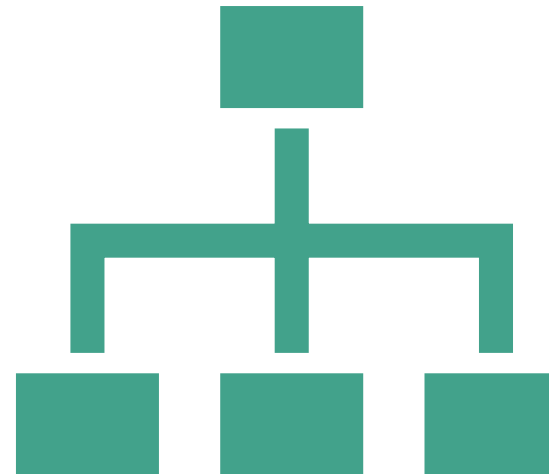
Competitive Products Average Unit Attributable Cost by Category, FY 2013-FY 2022



- ▶ The attributable cost of Competitive products comprised 43.9 percent of total attributable cost.
- ▶ The average unit attributable cost of Competitive products has been significantly higher in the last 5 years than in the previous 5 years; when a number of products were transferred from the Market Dominant to the Competitive product list.

Office of Accountability and Compliance

- ▶ The Office of Accountability & Compliance is responsible for technical (as opposed to legal) analysis and the formulation of policy recommendations for the Commission
- ▶ 22 Analysts in 3 Divisions (Accountability, Compliance, Data Analytics)
- ▶ Including experts in Economics, Econometrics, Accounting, Statistics, Data Analysis, and International Mail
- ▶ Work closely with attorneys in OGC to develop analysis and recommendations for Commission
- ▶ OAC staff are also often designated as Public Representatives



Annual Reports

- ▶ Annual Compliance Determination (ACD)
 - ▶ Examination of the Postal Service's Annual Compliance Report (ACR) to determine “(1) whether any rates or fees in effect during such year (for products individually or collectively) were not in compliance with applicable provisions of [chapter 36] (or regulations promulgated thereunder); or (2) whether any service standards in effect during such year were not met.” 39 U.S.C. § 3653(b)
 - ▶ Statutory 90-day clock starts when ACR is filed, usually between Christmas and New Year's Day
 - ▶ Where instances of noncompliance are identified, directives may be issued to address problems

Annual Reports, cont.

- ▶ Financial Analysis of USPS Financial Results and 10-K Statement (Financial Report)
 - ▶ Analysis of overall financial status focusing on profitability, stability, and long-term viability
 - ▶ Examination of attributable and institutional costs and trends in Market Dominant and Competitive Products
 - ▶ Disaggregation of functional costs and review of labor costs and workhours
- ▶ Analysis of the Postal Service's Annual Performance Report and Performance Plan (2803/04 Report)
 - ▶ Review and analysis of Postal Service's Performance Plan and Initiatives, and their compliance with statutory requirements
- ▶ Annual Report to the President and Congress
 - ▶ Summary of Commission activities
 - ▶ Estimated cost of Universal Service Obligation (USO) and value of the postal monopoly

Rate Cases

▶ Market Dominant Rate Cases

- ▶ 45-day statutory time limit
- ▶ Primary focus on clearly defined, quantifiable requirements
 - ▶ Application of price cap (including calculation of percentage change in rates for each class), worksharing discount rules, preferential rate requirements, rules for non-compensatory products, and any prior Commission directives

▶ Competitive Rate Cases

- ▶ Rates of General Applicability
- ▶ Non-Published Rates (NPRs)
- ▶ Negotiated Service Agreements
- ▶ Each is evaluated for compliance with requirements of § 3633
 - ▶ No subsidy by MD products
 - ▶ Each competitive product must cover its attributable costs
 - ▶ Collectively, competitive products must cover what the Commission determines to be an appropriate share of institutional costs (10.4 percent for FY 2023)

Rulemakings

- ▶ Can be formal (including changes in C.F.R. regulations) or informal
- ▶ Most common are “carwashes” or proposed changes in “analytical principles”
 - ▶ Postal Service must use only accepted analytical principles in preparing reports to Commission
 - ▶ “a particular economic, mathematical, or statistical theory, precept, or assumption applied by the Postal Service in producing a periodic report to the Commission”
 - ▶ Include sampling system designs, cost attribution methodologies, etc.
 - ▶ “Priorities” reviews like Docket No. RM2022-1 are used for transparency and planning of possible future changes
- ▶ Some modify rules governing price cap, worksharing discounts, and other rate regulations (most famously the 10-year review and resulting changes)
- ▶ Some modify reporting requirements or procedural rules
- ▶ Every 5 years, PRC is required to review the appropriate share requirement for Competitive Products

Other Dockets and Projects

- ▶ Nature of Service (N) cases
 - ▶ E.g., CET for Periodicals, service standard changes, load leveling, network rationalization, retail access optimization
- ▶ Mail Classification (MC) cases
 - ▶ For new products, modifications, or product transfers
- ▶ Market Test (MT) cases
- ▶ Public Inquiry (PI) cases
- ▶ Calculation of Competitive Products assumed tax (T) cases
- ▶ Complaint (C) cases
- ▶ International mail activities
 - ▶ Including providing views to Dept. of State on consistency of treaties, conventions, or amendments that establish a MD rate or classification with the MD rate system
- ▶ Special reports and studies
 - ▶ E.g., recent report to Congress on flats operations
- ▶ Staff papers