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

ANNUAL COMPLIANCE REPORT, 2024	Docket No. ACR2024

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(January 28, 2025)

The National Postal Policy Council ("NPPC") hereby submits its comments on the Postal Service's Annual Compliance Report ("*ACR*") for Fiscal Year 2024.

In FY 2024, the Postal Service continued to provide service well below its established standards and continued to incur excessive costs. Indeed, service performance was very poor; for example, the Postal Service did not meet a single target for First-Class Mail. *ACR* at 49, Table 13. And the Postal Service's overall financial performance still trails far behind the bold boasts made in the original *Delivering for America* plan.

In these comments NPPC will address only: (1) the Postal Service's financial condition and (2) the large number of non-compliant workshare discounts, which stem from the use of out-of-date cost data and the excessively broad passthrough range allowed by rule 3030.284(e).[1] Those factors combine to send inefficient pricing signals, leading to sub-optimal worksharing and, consequently, Postal Service operational inefficiencies.

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[1] NPPC is pleased that the volume growth incentive approved in Docket No. R2023-3 appears to have had a positive effect in both First-Class Mail and USPS Marketing Mail. On January 21, 2025, NPPC moved for issuance of a Chairman's Information Request seeking more detail about that incentive program.

I. The ACR Shows The Need To Reform The Market Dominant Rate Regulatory System To Establish Better Incentives

The Postal Service is reporting a loss in FY 2024 of $9.5 billion. *United States Postal Service Form 10-K* at 48. Of that loss, $2.164 billion is a negative non-cash workers compensation adjustment. *Id*. at 21. Another $5.53 billion consists of the year's unfunded CSRS and FERS liability amortization expense. *Id*. Generally Accepted Accounting Principles require the Postal Service to report both of these costs.

Nevertheless, the Postal Service would prefer to downplay the workers compensation and retiree amortization costs and focus instead on what it refers to as "controllable costs." But even if one were to ignore, as the Postal Service would prefer, the non-cash workers compensation adjustment and the unpaid retiree amortization costs, the *ACR* still reports a substantial loss. And while the Postal Service touts a reduction in its "controllable loss,"[2] its operating results came at the cost of severely worsened service and, despite some cost reductions, an ongoing inability to manage its costs on a breakeven basis.

Yet despite these service and cost control problems, current regulations allow the Postal Service to earn density rate authority. That it can do so despite deteriorating service – indeed, its announced service performance targets for FY 2025 are well below the FY 2024 targets – and continued operating losses simply highlights that the density authority does not hold the Postal Service accountable for service or costs. The volume component of the formula does not hold the Service accountable for its role in loss of volume due to price and service decisions. Nor does the institutional cost component

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[2] *See ACR* at 1 & *United States Postal Service Form 10-K Fiscal Year 2024*, at 21.

hold it accountable for controlling costs; it simply takes them as a given, and the higher the share of institutional costs, the greater the density authority.[3]

In Docket No. RM2024-4, NPPC urged the Commission to abolish the density rate authority and to adopt a performance incentive mechanism tied, *inter alia*, to volume growth and cost control. The *ACR* demonstrates that such reforms remain urgently needed.

II. The Commission Must Strengthen Its Rules Regarding Workshare Discount Passthroughs To Ensure That Prices Send More Efficient Signals

The current regulations create a mismatch between the costs upon which workshare discounts are set and the costs incurred during the period in which discounts are in effect. For example, in Docket No. R2024-2, filed on April 9, 2024, the Postal Service set workshare discounts based on the avoided costs determined in the ACD for FY 2023, issued by the Commission on March 28, 2024. Those rates took effect in July 2024 and remain in place today; the costs upon which they were set were incurred from October 1, 2022, through September 30, 2023. In short, the costs avoided were more than nine months old when the discounts based upon them took effect and included costs that were nearly 24 months old by the end of the postal year.[4]

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[3] If anything, the density formula may give the Postal Service an incentive to advance costing methodologies that reduce the share of attributed costs and increase the proportion of institutional costs. Not every change that the Postal Service has proposed in costing methodologies has done so, but the rate incentive is always present.

[4] This occurs despite the fact that the Postal Service consistently has filed for a rate increase shortly after the Commission has issued an Annual Compliance Determination for the preceding fiscal year. But the timing of the end of the postal year, the filing of the *ACR*, and the need for an Annual Compliance Determination ensure that workshare discounts will be based on cost data that are *at least* six (and as much as 18) months stale at the time new rates are proposed.

This mismatch is well known. NPPC discussed it in its comments on the annual compliance report for 2021,[5] and the Commission discussed it in its Annual Compliance Determination for FY 2023.[6] In the Commission's current review of the Market Dominant rate regulatory system, NPPC explained that the mismatch between the earlier period over which the avoided costs are measured and the later period in which workshare discounts based on those costs are in effect results in the discounts far too frequently understating avoided costs.[7] If the discount is less than the Postal Service's avoided costs, then the Postal Service will perform more of the activity itself than would be efficient. This is a serious problem because it results in suboptimal worksharing that leads directly to excessive postal costs.

The *ACR* in this docket shows that the problem continues and, indeed, has worsened. In First-Class Mail, 12 workshare discounts passed through less than the 85 percent minimum allowed under current rules. *ACR* at 15. Only three were within the permissible range, and one exceeded it. *Id*. Thus, 75 percent of passthroughs were below the regulatory lower bound. In Marketing Mail, 31 of the 66 discounts were under the 85 percent minimum, eight were within the allowed range, and 24 exceeded 100 percent. Only three turned out to be set efficiently at 100 percent. *Id*. at 21. The story in Periodicals is similar, with 24 of the 30 workshare discounts below the 85 percent

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5 *See Comments of the National Postal Policy Council*, Docket No. ACR2021, at 2-6 (January 31, 2022).

6 See *Annual Compliance Determination FY 2023,* at 16 (Mar. 28, 2024) ("FY2023 ACD").

7 *See Comments of the National Postal Policy Council*, Docket No. RM2024-4 *et al*., at 25-31 (July 9, 2024). NPPC recommended two specific reforms to address this problem: (1) delete Rule 3030.284(c), thus requiring all workshare discounts to have passthroughs and (2) modify current Rule 3030.284(e) by replacing "85 percent" with "95 percent," thereby setting the discounts closer to the most recently measured avoided cost. *Id*. at 65-66.

minimum passthrough, only two are within the current 85 to 100 percent permitted range, and four exceed 100 percent. *Id*. at 24.[8]

To its credit, the Postal Service repeatedly notes that all of these discounts complied with current workshare discount regulations when they were proposed, either by falling within the approved passthrough range or by receiving an exception. NPPC does not disagree. But that merely illustrates that the current workshare discount regulations result, due to the passage of time, in discounts that do not send optimal signals for efficient mailer worksharing. As a consequence, mailers engage in less worksharing than optimal, and the Postal Service incurs excessive costs. NPPC's comments in Docket No. RM2024-4 discuss this in more detail and show how the regulation should be modified better to ensure that the objective of efficient pricing signals is achieved.

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8 In Package Services, eight workshare discounts were below the current 85 percent minimum and four were in excess of 100 percent. *ACR* at 26.

III. Conclusion

The National Postal Policy Council urges the Commission to consider these comments in rendering its Annual Compliance Determination.

Respectfully submitted,

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