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

ANNUAL COMPLIANCE REPORT, 2023	Docket No. ACR2023

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(January 30, 2024)

The Postal Service's Annual Compliance Report for FY 2023 ("*ACR*") shows a Postal Service that, despite sustained record high rates and near-record revenues, has profound issues with excessive costs, continues to suffer sharp volume declines, and is struggling to improve service. In what the Delivering for America Plan ("*DFAP*") promised would be a financially break-even year,[1] the Postal Service fell far short of that target, even on a controllable cost basis. That total operating expenses rose to a record high while volumes fell to a level not seen this century, is not a strategy for long-term stability. Total First-Class Mail volume fell to a low not seen since 1968.[2]

The problem is not revenues. After two large rate increases during the year, postal revenues from mail and services in FY 2023 totaled $77.559 billion, above the FY 2022 figure of $77.067 billion and well above revenues in all other previous years.[3] Total revenues were still larger, at $79.324 billion. This largesse came despite the

1 United States Postal Service, *Delivering for America*, at 51, Figure 35

2 *See* https://about.usps.com/who/profile/history/first-class-mail-since-1926.htm.

3 *Compare, e.g.*, USPS-FY23-1, Public_FY23CRA_Expanded at Tab Summary *with* PRC-FY2022-1, Public.FY22CRAReport.Expanded_Ord.6459, Tab Summary. Total Postal Service revenues for FY 2022 were distorted by the Postal Service Reform Act's forgiveness of certain retiree obligations.

Service having delivered far less mail and packages than in previous years.[4] The problem is costly and inefficient operations that lead to service that falls to meet promised levels. A cost-efficient enterprise will provide good quality service, but very few inefficient operations can do so. When disappointing and inefficient service is combined with high prices, business declines – which is exactly what is occurring with mail volume.

The *ACR* shows that it is imperative that the Postal Service control its costs, and capture savings when volume falls. But the Postal Service's productivity fell by a record amount in FY 2023, and mailers await the improvement promised by the *DFAP*.

The Postal Service did have some successes in FY 2023. It managed to reduce transportation costs by a small amount, although it appears that it did not fully capture the cost savings it could have due to the reduced volume. And it reports that service generally improved to a slight degree, although, as discussed below, the reported results often do not match what NPPC members' own tracking indicates.

Moreover, the Postal Service made progress on offering mailers incentives to increase volume through broadening, and adding flexibility to, its range of promotions and (although outside of FY 2023) introducing a volume incentive.

Yet despite these commendable efforts to stimulate volume, the Postal Service will continue to struggle unless it can bring its costs under control, ideally below inflation. Simply hoping that ever-increasing prices will overtake ever-increasing costs will not lead to success.

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4 Greater revenues after raising prices while volume falls is a compelling indication of market power.

NPPC will address costs, pricing (particularly of workshare discounts), and service performance.

I. "CONTROLLABLE COSTS" ARE NOT BEING CONTROLLED

The Postal Service's costs exceeded its revenues in FY 2023 by $6.478 billion. NPPC understands that workers compensation, the CSRS supplemental liability, and the FERS supplemental liability -- which accounted for $4 billion of the Postal Service's net loss – are outside of the Service's direct control.[5] However, those costs do not explain the continued excessive "controllable" losses.

A. First-Class Mail Costs

Domestic First-Class Mail costs rose, on both a total and on a per-unit basis, while volume fell by about 6 percent:

FY 2023 First-Class Mail

	Total Costs	% Change	Unit Cost	% Change	Volume
Total FCM	$11,745	2.0	$0.254	8.45	-6.1%
Presort Letters	$4,962	7.7	$0.161	12.47	-4.2%

(Total costs in millions)[6]

As this Table shows, the attributable costs of First-Class Presort Letters costs increased substantially on both a total and a per-unit basis, while volumes fell by 4.2 percent. The

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[5] Despite disclaiming any responsibility for those costs, the Postal Service does have some indirect control of these costs, at least over time, by managing the size of its workforce which gives rise to these obligations. Note that in economic cost terms, the Postal Service's loss was even greater than the accounting loss due to the omission of retiree health benefit normal costs.

[6] Cost comparison is between FY 2023 data reported by the Postal Service in its Cost and Revenue Analysis filed with the *ACR* and the determinations as to FY 2022 data reported in the Commission's *Annual Compliance Determination Report FY2022*. *Compare* Docket No. ACR2023, USPS-FY23-1, Tabs Cost1 & Volume1 *with* Docket No. ACR2022, PRC-LR-ACR2022-1, Public_FY22CRAReport-UpdtedOrder6459, at Tabs Cost1 & Revenue1 (Mar. 29, 2023). Volume comparison is to Docket No. ACR2023, USPS-FY23-42, FY2023_RPWsummaryreport_public_ACR.

biggest contributors to the higher unit costs were in Cost Segment 3 – Clerks and Mailhandlers (up 9.1 percent in total and by 14.8 percent on a unit basis) and Cost Segment 7—City Delivery Carriers – Street Activity (a 15.2 percent increase in total costs and a 21.3 percent increase in unit costs).[7]

The *DFAP* assured the public that the Postal Service would capture all of the workhour savings from volume reductions.[8] Three years in, the *ACR* shows that the Service has not been able to do so thus far. Volume declines should produce declines in workhours. In FY 2023, workhours did decline, as they should have, but the Postal Service captured far fewer workhour savings that it should have. Weighted mail volume fell by 8.1 percent,[9] but workhours fell by only about 2.3 percent.[10] Given the well-established volume variabilities, the Postal Service should have captured savings from a nearly 4.8 percent reduction in workhours (or nearly twice the workhour reduction seen).[11]

The Postal Service's inability to capture the attributable savings that one would expect from volume declines is substantiated by its reported Total Factor Productivity

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7 Comparison is between Docket No. ACR2022, USPS-FY22-43, IC2022Public.NewAttribCRpt, Tab CSSummary and Docket No. ACR2023, USPS-FY23-43, IC2023Public.NewAttribCRpt, Tab CSSummary. Unit costs are calculated by dividing the aforementioned costs by the volumes in USPS-FY22-1 and USPS-FY23-1, respectively.

8 *See DFAP*, at 43, Figure 25.

9 *See* USPS-FY23-17, FY2023 TFP Summary Tables (Public), Tab Workload & Input.

10 *See* United States Postal Service, *2023 Report on Form 10-K*, at 24.

11 Calculated by multiplying the weighted mail volume change (decline of 8.1 percent) and the volume variability of personnel costs from the USPS-FY23-2, FY23Public+Cost+Segs+and+Comps (53.4 percent).

change from the previous Fiscal Year of -4.0 percent.[12] Simply put, that is the worst TFP performance by the Postal Service since data have been reported beginning in 1963.[13] Also troubling is that while labor contributed a negative 2.1 percent and materials a negative 1.9 percent to TFP, the Postal Service's many capital investments appear to have had *zero* effect on TFP in FY 2023.[14]

In sum, the Postal Service simply is not capturing the cost savings that it should from the volume declines that it is experiencing. The inability to capture cost savings, and the historically abysmal TFP, demonstrate that the Service did not operate in a cost-efficient manner in FY 2023. That is a management issue, and it is not an issue that mailers can or should solve through even higher prices.[15]

B. USPS Marketing Mail Costs

A similar story has occurred in USPS Marketing Mail letters. In FY 2022, the volume of such letters increased while the unit attributable cost declined.[16] That reversed in FY 2023.

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12 *See* USPS-FY23-17, TFP Materials, FY2023 TFP Summary Tables (Public), Tab Workload & Input).

13 *See* USPS-FY23-17, TFP Materials, Table Annual 2023 (public).xlsx, at Tab Tfp-52.

14 *See* USPS-FY23-17, TFP Materials, FY2023 TFP Summary Tables (Public), Tab Workload & Input).

15 The General Accountability Office observed last summer that the postal management could improve on applying lessons learned as it continues to implement the DFAP. *See U.S. Postal Service: Better Incorporating Leading Practices for Project Management Could Benefit Strategic Plan Implementation* (July 2023).

16 *See PRC Financial Report FY2022*, Tables III-11 & III-12.

In FY 2023, the volume of Marketing Mail letters fell from 43.682 billion in FY 2022 to 38.126 billion, a decline of 12.72 percent.[17] That steep decline also resulted in a decline in revenue from $10.23 billion in FY 2022 to $9.49 billion in FY 2023.[18] The volume decline did reduce the product's total attributable costs but only by about $75.7 million. That 1.4 percent reduction in total costs paled in comparison to the 12.72 percent volume loss, resulting in a net *increase* in unit attributable costs of 13 percent.

That net increase simply should not have happened. The Postal Service was unable to capture the vast majority of attributable cost savings that should have resulted from the loss of *more than 12 percent* of the volume.

C. Transportation Costs

The Postal Service reports total transportation costs of $10,111,498,641.[19] That appears to be a reduction of about $159 million from FY 2022, or about 1.6 percent.[20] Domestic air costs have declined while highway costs have increased, which is consistent with the goal of the *DFAP* to shift some air transportation to ground.

The Postal Service deserves some credit for reducing its transportation costs. However, and as in the case of First-Class Mail Presort Letters discussed above, given the overall volume reduction of 8.8 percent,[21] one would have expected the Postal Service to have reduced transportation costs by a significantly larger amount.

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[17] *Compare id. with ACR*, at 18, Table 3.

[18] *Id*.

[19] *See* USPS-FY23-2, Public Cost Segs and Comps, Tab CS14, Cell M60.

[20] *Compare id. with* USPS-FY22, Public Cost Segs and Comps. Tab CS14, CellM60.

[21] *See* USPS-FY23-42, FY2023_RPWsummaryreport_public_ACR.

II. FIRST-CLAA MAIL PRICING AND WORKSHARE DISCOUNTS

A. Postal Pricing Is Driving Volume Away

First-Class Mail received two rate increases in FY 2023, one in January 2023 and the second in July 2023. Compounded, these raised the average First-Class rate by 9.8 percent.

However, despite these 9.8 percent compounded increases, actual First-Class Mail *revenues* increased by only 2.5 percent. While a portion of that 7.3 percent disparity between the rate increases and revenues might be due to mailers shifting to lower-priced pieces, its principal cause is the loss of 6.1 percent of First-Class Mail volume. *See ACR* at 12. Indeed, the First-Class Mail volume loss in FY 2023 was more than 2 percent larger than in either FY 2022 or FY 2021.

B. Higher Costs and Negative Productivity Combined To Make Many Workshare Discounts Non-Compliant With Regulatory Requirements

The *ACR* reports that many passthroughs in First-Class and Marketing Mail did not comply with the law and Commission regulations. The Postal Service recognizes that its next rate filing will need to adjust those workshare discounts.[22] In most instances, passthroughs – even if set in compliance with regulatory requirements – changed because the avoided costs increased.

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22 *ACR* at 13.

III. SERVICE PERFORMANCE

NPPC appreciates that the Postal Service is working to improve service performance, and that its employees are working hard throughout the system to deliver important business correspondence to the nation.

As for the reported performance, the Postal Service states that 94.9 percent of First-Class Presort overnight mail was timely delivered, shy of the 95 percent target. *ACR* at 51. In a footnote, the Postal Service argues that it missed by only a tenth of a percent and did better in the last two quarters of the year. *Id*. at n.27. However, the Postal Service had exceeded the 95 percent target in FY 2022, so its performance in FY 2023 slipped slightly.[23]

On the other hand, the Postal Service improved its reported service performance for 2-day and 3-to-5 day up compared to last year, although both remained below target. *Compare ACR* at 51 *with ACD FY22* at Figure V-13.

In contrast, the service provided to First-Class Flats was significantly slower, falling short of its targets by more than 10 percent. *ACR* at 51. While the reported results appear to be a slightly uptick from FY 2022 performance, it remains far from satisfactory.

As NPPC has discussed in past years, the Postal Service does not report separately in the *ACR* the service performance for remittance mail or reply mail. However, the Postal Service now reports Reply Mail service on its online dashboard, and NPPC urges the Commission and Postal Service to continue to work towards separate reporting of remittance mail on both the dashboard and in the *ACR*.

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[23] *See ACD FY22* at Figure V-13.

NPPC has two observations about the Postal Service's report. First, while understanding that setting "targets" less than the service standards may be operationally realistic at present, NPPC reiterates its past view that targets should match the published service standard. Not doing so means that the Postal Service plans to provide service that is less good than advertised. NPPC is aware that the Service is allowed to do so,[24] but nevertheless believes that the Service should set higher internal expectations than it currently does.

Second, NPPC is concerned that the Postal Service's reported service performance does not match the performance its members believe that they in fact are experiencing. At least two reasons could explain this. One is a lack of clarity on when the Postal Service "Starts the Clock." Although the Postal Service states that the Start-the-Clock date begins with "USPS possession,"[25] it is generally unclear whether in actual practice the Postal Service starts the clock with possession or waits until a first scan, which might occur later.

Another possible explanation may lie in the fact that one-third of First-Class Presort Letters and Cards are not in measurement.[26] No "Start-the-Clock" accounts for fully half of those.[27] It is conceivable that pieces not in measurement have received

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[24] *See ACD FY22* at 119, *citing American Postal Workers Union, AFL-CIO v. Postal Regulatory Commission*, 842 F.3d 711 (D.C. Cir. 2016).

[25] *See* USPS-FY23-29, Average Days to Deliver Reports, First-Class Mail, PrstFC LC 234 AvgDaysToDeliver Report.xls, Tab PrstLC Narrative.

[26] *See* USPS-FY23-29, Measured-Unmeasured Tables, FY23 AttachB_Total MeasuredUn-Measured.xsx, Tab 23, cell D11.

[27] *See* USPS-FY23-29, Measured-Unmeasured Tables, FY23 AttachA_ExclusionReasoNBreakdown_FY23, Tab First Class.

poorer service than those in measurement, which mailers may be able to track but the Postal Service cannot.

Finally, the Postal Service's FY 2024 service performance targets for First-Class Presort letters do not change from FY 2023 for overnight and 2-day delivery. The target increases slightly for three-to-five days.[28] The targets for First-Class Flats are unchanged for overnight and tick upward slightly for 2- and 3-5 days. NPPC appreciates the Postal Service's intention to improve, but these remain short of the standards set for the products. NPPC also notes that the standards for Flats have not been reduced despite the poor service performance in FY 2023 and hopes that this means the Postal Service will redouble its efforts in the current year.

IV. PROMOTIONS

NPPC members make substantial use of the Postal Service's promotions, usually but not exclusively in First-Class Mail. NPPC commends the Postal Service for offering promotions as incentives to mailers to seek new opportunities to use mail effectively to retain or increase volume. In particular, the Tactile, Sensory and Interactive Mailpiece Engagement Promotion appears to have been remarkably successful.

In its comments on the FY 2022 ACR, NPPC offered several suggestions for the Postal Service to consider. These included: (1) providing longer advance notice of a promotion to allow more time for mailers to prepare; (2) lengthen the duration of some

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[28] *See* Letter from Mikhail Raykher to Hon. Erica Barker (Nov. 29, 2023).

promotions; (3) offering a more permanent volume incentive.[29] NPPC is pleased that the Postal Service has responded positively on all three.

First, in Docket No. R2023-2, filed in April 2023, the Postal Service announced its slate of calendar year 2024 promotions. Doing so responded to mailers' requests for additional lead time in which to prepare, and the Postal Service's responsiveness is to be commended.

Second, the Postal Service lengthened the duration of the promotion so that mailers have a longer opportunity to recoup their investments. The Emerging and Advanced Technology discount approved in Docket No. R2023-2 in effect did so by modifying that promotion to allow mailers, effective January 1, 2024, to select the six-month period in which they intend to use the promotion.

Third, the Postal Service proposed, in Docket No. R2023-3, a volume incentive in First-Class and Marketing Mail. The Commission approved that proposal, and it took effect on January 1, 2024. Unfortunately, many mailers – particularly in First-Class – may not have sufficient time in their current budget cycles to respond to this incentive, but that should not discourage the Service from repeating this incentive or offering new ones in the future.

The Postal Service should consider making successful promotions permanent, as it does with the current array of presortation, containerization, and dropship discounts that encourage mailers to look for ways to reduce postal costs. It could consider converting some promotions into permanent year-round incentives. Doing so

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[29] *See Comments of the National Postal Policy Council*, Docket No. ACR2022, at 17-18 (Jan. 31, 2023).

would give the Postal Service additional tools to attract volume, and mailers additional reasons to use the post.

V. 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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