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

MARKET-DOMINANT PRICE CHANGE	Docket No. R2025-1

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(May 9, 2025)

The National Postal Policy Council ("NPPC")[1] hereby respectfully submits these comments on the Postal Service's notice of market-dominant price adjustments.[2] NPPC urges the Commission:

- To act in Docket No. RM2024-4 to curtail the ongoing excessive rate increases on mail subject to the postal monopoly;

- To abolish a loophole in its workshare discount regulation that has allowed the Postal Service to reduce the pricing efficiency for important rate categories in First-Class Mail ("FCM");

- To preserve the Detached Marketing Label product until January 2026 to allow time for necessary software to become available;

- To approve the SCF pallet discount in First-Class Mail;

[1] The National Postal Policy Council is an association of large business users of letter mail, primarily First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries. NPPC members account for a large majority of the Presort Letters and Cards (hereinafter "Presort Mail") in the postal system and work closely with the Postal Service on worksharing and many other efforts to make their mail as efficient and low cost as possible.

[2] *United States Postal Service Notice of Market-Dominant Price Change*, Docket No. R2025-1 (April 9, 2025) ("*USPS Notice*"). The Commission issued public notice in Order No. 8785. *Notice and Order on Price Adjustments and Classification Changes for Market Dominant Products*, Docket No. R2024-2 (April 10, 2025), 90 *Fed. Reg*. 16012 (April 16, 2025).

- To approve the noticed promotions and ensure that the Postal Service does not over-recover for the growth incentives; and
- To understand that mailers that doubt whether the Postal Service's Origin facilities are prepared to handle former-NDC mail will shift to digital alternatives

I. This case continues the trend of excessive rate increases that started in 2021

After the noticed rate adjustments are implemented, First-Class Mail business mailers will have seen their rates increase seven times since August 2021 – less than 4 years ago – for a compounded total increase of more than 49 percent for Presort Letters and 63.5 percent increases for Flats. These compounded increases, which come over a period in which service standards have been reduced twice and service performance has declined, continue to diminish the value of First-Class Mail to business and consumer mailers alike. The 7.385 percent rate increase for First-Class Mail, although apparently conforming to current regulations, can hardly be expected to reverse this trend.

The same can be said of USPS Marketing Mail, which NPPC members also use, particularly USPS Marketing Mail Letters. Rates for the entire class are being raised too much – even if compliant with regulations -- for its continued robust use, particularly at a time when economic conditions are uncertain.

It would be one thing if the relentlessly increasing prices had led to postal services being 50 percent better than in 2021. But that is certainly not the case. And with the continued implementation of the Delivering For America ("DFA") service changes, the Postal Service will intentionally slow service provided to much of First-Class Mail Single-Piece and USPS Marketing Mail, although NPPC acknowledges that the Postal Service expects some First-Class Mail Presort Letters to receive faster service. While the delays associated with the changes caused by the Regional Transportation Optimization ("RTO") initiative presumably commenced on April 1, the supposedly offsetting improved delivery for Presort Mail (due to longer truck runs between RPDCs) will not even begin until July and only time will tell if they materialize.

That rates are lawful does not necessarily mean that they are judicious, wise or in the best interest of the Postal Service, the mailing industry or the public at large. Raising rates by such a magnitude while service faces disruption, service standards are slowed for much mail, and volumes shrink will continue to undermine the sustainability of the mail that the Postal Service needs to maintain its viability.

Although, as noted below, several details of the noticed new First-Class Mail rates are improvements and are consistent with past suggestions from NPPC, experience attests that their beneficial effects will be outweighed in the eyes of many business mailers by the overall percentage increases in rates that far exceed inflation. The problem is worsened by the Postal Service's retreat from efficient pricing of workshare discounts. These rate increases highlight the need to reform the Market Dominant rate system, the subject of currently pending Docket No. RM2024-4.

II. The Postal Service's First-Class Mail workshare discount passthroughs illustrate a loophole in the Commission's rules that should be closed

A. The Commission has long maintained that workshare discounts should be priced as close as possible to the avoided costs to promote pricing and economic efficiency

The Commission has long understood that the concept of efficient component pricing applies to workshare discounts. When workshare discounts are set equal to the Postal Service's avoided costs, a mailer can choose whether it or the Postal Service can perform the task more efficiently. This benefits the entire postal sector by encouraging mailers and the Postal Service to combine to transport, sort, and deliver mail at the lowest combined cost, fully consistent with the statutory objective of reducing costs and maximizing efficiency in postal operations. 39 U.S.C. §3622(b)(1).

The introduction of presortation workshare discounts in the 1970s and the subsequent introduction of destination entry discounts quite likely spurred the substantial volume growth that the Postal Service experienced in the late 1980's and 1990's until volume peaked in 2006, at which time digital alternatives became more attractive. Although First-Class Mail volumes have declined significantly since 2001, volumes have disappeared more rapidly in Single-Piece than in Presort mail.[3] The prevalence of worksharing in Presort First-Class Mail, resulting in lower and more efficient rates, likely has slowed the decline in that product.

B. The Postal Service has reduced important workshare passthroughs in First-Class Mail

The USPS Notice presents a set of significantly less efficient price signals for First-Class Mail workshare discounts than in previous years. Although the Postal Service's estimates of avoided costs have increased, two of the most important First-Class Letter workshare discounts are unchanged. As a result, the passthroughs have declined notably. In other instances, the Postal Service has increased discounts found non-compliant in the *ACD2024* to just barely above the 85 percent generally required minimum.

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[3] *See* United States Postal Service Office of Inspector General, *Analysis of Historical Mal Volume Trends*, at 7 & Figure 8 (Sept. 4, 2024).

The Table below presents, for the First-Class Automation Letter discounts, the QBRM discount, and the largest volume categories of cards and flats, the workshare discounts set in R2024-2 (based on FY 2023 costs) and their passthroughs, the costs determined in the recent *ACD2024*, and the noticed R2025-1 discounts and their passthroughs.

First-Class Mail Workshare Discounts

Discount	R2024-2 Discount	ACR2023 Avoided Costs	R2024-2 P/T	R2025-1 Discount	ACR2024 Costs Avoided	R2025-1 P/T
QBRM	$0.023	$0.024	95.8%	$0.025	$0.029	86.2%
Auto Mixed AADC Ltr	$0.068	$0.068	100.0%	$0.068	$0.073	93.2%
Auto AADC Ltr	$0.029	$0.029	100.0%	$0.031	$0.036	86.1%
Auto 5-Digit Ltr	$0.048	$0.049	98.0%	$0.048	$0.056	85.7%
Auto 5-Digit Cards	$0.022	$0.025	88.0%	$0.025	$0.027	92.6%
Auto 5-Digit Flats	$0.258	$0.271	95.2%	$0.265	$0.038	86.0%

The absolute amounts of the discounts highlighted in yellow – for Automation Mixed AADC Letters and Automation 5-Digit Letters – are not proposed to change. But because the costs avoided have increased, the passthroughs are shrinking (highlighted in green). In Automation AADC Letters, the passthrough is lowering from the 100 percent set in R2024-2 to 86.1 percent despite a modest increase in its absolute amount. And in three instances (highlighted in blue), although the Postal Service increased the amount of the discount, the corresponding passthrough declined because the costs avoided increased to a larger extent. In sum, at the proposed rates the Postal Service will be pricing five of these six important discounts in First-Class Mail less efficiently.

These are not unimportant discounts. The three Automation Letter categories are the three largest volume categories in Presort Mail. The Automation 5-Digit Letter category itself comprises more than half of *total* First-Class Mail volume. The 5-Digit Cards and Flats categories are the largest for their respective products.

By reducing workshare discount passthroughs, the Postal Service is proposing less efficient prices that will unnecessarily increase its own costs. The Postal Service should be moving workshare discount passthroughs closer to 100 percent of avoided costs, not further away.

C. The Postal Service's failure to increase First-Class Mail Automation Letter discounts to correspond with the increased costs avoided (thereby decreasing the passthroughs) is materially inefficient

The Postal Service's shrinkage of the largest volume First-Class Mail workshare discounts technically complies with current rules, which refer to the amount of the discounts, not to the passthroughs. However, its action exploits a loophole that the Commission left open in Order No. 5763. This illustrates the need to improve the regulation found in 39 C.F.R. §3030 subpart J.

The Commission adopted the current workshare discount regulations in Order No. 5763. As adopted, Section 3030.282 of the Commission's rules "codifies the Commission's 'do no harm' principle, which is intended to prohibit the Postal Service from making workshare discounts more inefficient." Order No. 5337 at 193 & 214. Section 3030.282 does so by prohibiting workshare discounts that are equal to avoided cost from being changed (that is, set below or above avoided cost). *Id.* at 206.

At that time, however, the Commission also stated "that when changes to avoided costs result in passthroughs below 100 percent, the final rules do not require that the Postal Service return the passthrough to 100 percent of avoided costs as long as the passthrough is above 85 percent or otherwise meets the requirements of final § 3030.284." Order No. 5763 at 214.[4] That is precisely what has occurred now.

In Docket No. RM2017-3, NPPC had recommended that the Commission prohibit exactly what the Postal Service is now doing due to its concern that as avoided costs rose, the Postal Service would allow workshare discounts to "migrate discounts to 85 percent instead of the desired 100 percent."[5] At that time, the Commission declined to do so, saying "that changes in cost avoidances occur annually, causing passthroughs to fluctuate." Order No. 5763 at 215. But it also stated:

> The Commission notes that, over time, should it appear that the Postal Service is attempting to use the 85 percent passthrough floor as a "safe harbor" for below-avoided-costs workshare discounts and is not taking steps to move those workshare discounts toward ECP, the Commission may revisit its rules on workshare discounts as part of its planned review in 5 years.

Order No. 5763 at 212-213. That is occurring now.

The most recent Annual Compliance Determination found that 12 of the 16 First-Class Mail workshare discounts were below the 85 percent minimum required by 39 C.F.R. §3030.284(e). That gave the Postal Service an opportunity to set many of those discounts at far more efficient levels. Instead, the Postal Service generally raised them to the bare minimum needed to come into compliance.

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4 Footnote 281 in Order No. 5763 does prohibit a reduction in passthrough, but only when a passthrough is already set at 100 percent of avoided cost. That prohibition does not apply, however, when a discount once set at 100 percent no longer passes through that percentage because the avoided costs change.

5 *Comments of the National Postal Policy Council, the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement*, Docket No. RM2017-3, at 17 (Feb. 3, 2020).

The marginally compliant passthroughs now presented by the Postal Service are likely to dip, once again, below the 85 percent threshold within the year. Indeed, they may already have done so for some discounts because the calendar period upon which they are based ended more than seven months ago.[6] The more the Postal Service prices workshare discounts near the 85 percent safe harbor, the more likely they are to become non-compliant while in effect.

The Postal Service has chafed at the workshare discount regulations since their inception and now appears to be using the 85 percent as a floor with little effort to price discounts closer to 100 percent. The Commission is currently reviewing its regulations in Docket No. RM2024-4 and should tighten its workshare discount rules in that proceeding.

III. NPPC does not oppose the shift from Detached Marketing Labels to Plus One, but the Commission should not eliminate the DML product until improved software is available for Plus One

The Postal Service is proposing to eliminate the Detached Mailing Label for USPS Marketing Mail saturation flat mailers, instead shifting those mailers into the Plus One product currently available for saturation Marriage Mail letters. NPPC does not oppose the shift to Plus One; however, NPPC opposes eliminating the DML category until such time as mailing software is fully available to support Plus One instead. NPPC believes that such software should be available by January 2026.

[6] NPPC explained this in detail in the Commission's pending review of the rate setting system for Market Dominant Mail. *See Comments of the National Postal Policy Council*, Docket No. RM2024-4, at 25-31 (July 9, 2024).

This elimination of a Market Dominant product is subject to 39 U.S.C. §3642. Section 3642(b)(3) requires the Commission to give "due regard" to:

(A) the availability and nature of enterprises in the private sector engaged in the delivery of the product involved;

(B) the views of those who use the product involved on the appropriateness of the proposed action; and

(C) the likely impact of the proposed action on small business concerns (within the meaning of U.S.C. §3641(h).

Shifting mailers from DML to Plus One is not an issue of market power—which exists for both products. Both products are used in conjunction with Market Dominant mail. The difference lies in the features of the product.

NPPC does not oppose this change; indeed, several members strongly support Plus One. However, NPPC members are concerned that the Plus One product requirements are more complex compared to the current DML and require significant IT development on the part of mailers. The Postal Service acknowledged in April that it had not yet identified any software providers that are working on this problem. Developing the necessary software, and building it into mailers' existing systems, will take time and it currently appears unlikely that the necessary software will be generally available by July.

If DMLs are eliminated before Plus One software for flats is available, mailers will experience significant problems. Particularly affected could be small business concerns that advertise in Marriage Mail pieces. NPPC recommends that the Commission reject – for now -- the proposed elimination of the DML and allow it to coexist with the Plus One product until at least January 2026.

IV. The Commission should approve the proposed SCF pallet discount in First-Class Mail

The Postal Service proposes to establish a new workshare discount in First-Class Mail for mail presorted to SCF pallets. *USPS Notice* at 14. NPPC supports this proposal.

The proposed SCF pallet discount would expand the preparation options available to commercial mailers in First-Class Mail. As is currently the case in USPS Marketing Mail, preparation of mail on an SCF pallet reduces mail processing costs and should improve service speed by eliminating tray or bundle handlings in upstream facilities. NPPC also commends the Postal Service for pricing the new discount efficiently at a 100 percent passthrough of the avoided costs. *See USPS-LR-R2025-1/1*, Tab FCM Worksharing.

V. Promotions and the calculation of Growth Incentive offsets

A. The First-Class Mail and USPS Marketing Mail Promotions should be approved

Addressing first the calendar year 2025 promotions now in effect, NPPC understands that the strikeouts of those promotions in the legislative language attached to the USPS Notice would not take effect until the end of calendar year 2025. Such treatment would be consistent with NPPC's understanding of the treatment of 2024 promotions last year. *See* Docket No. R2024-2, Order No. 7155, at 26 (May 30, 2024).

As for the calendar year 2026 promotions, NPPC commends the Postal Service for providing substantial advance notice. The Postal Service evidently believes that the promotions have been effective because it is continuing the 2025 promotions and is increasing the amount of the discounts for most of the promotions.

B. The Commission should monitor unused growth incentive credits

The Postal Service introduced growth incentives in First-Class Mail and Marketing Mail in Docket No. R2023-3, which first became effective on January 1, 2024. NPPC appreciates the Postal Service providing timely notice that the incentives will continue into 2026. Presumably the Postal Service has found the growth incentive program to be beneficial. NPPC does not oppose the Postal Service's shifting of the base year from the previous fiscal year to the previous calendar year.

Commission Order No. 8708 in Docket No. RM2020-5 allowed volume growth rate incentives that are not "generally available" to earn price cap credit under certain specific conditions. The Postal Service claims price cap credit in this proceeding pursuant to that Order. NPPC does not dispute the calculation. However, NPPC notes that the cap space depends on credits earned and issued. It would not be appropriate for the Postal Service to claim price cap space for credits that are issued but never used.[7] NPPC urges the Commission, going forward, to ensure that unused credits are not used to generate price cap space.

VI. Origin facilities may not be prepared to handle volumes shifting to them due to the elimination of NDC entry discounts in USPS Marketing Mail

The Postal Service has chosen to discontinue the NDC network and, thus, the NDC entry discounts. Although that is a Postal Service operational decision, NPPC members have expressed concern that the Origin facilities currently are not equipped, and may not be equipped by July 2025, to handle the increase in volume while hitting

[7] NPPC's understanding from communications with postal officials is that, at present, credits are used almost immediately, although this of course could change in the future.

service standards. If the NDC discounts are eliminated, those advertisers will likely shift to digital alternatives rather than risk service delays arising from Origin entry.

Advertisers that run multi-channel campaigns rely on timely delivery to link all the channels of communication. Some large advertisers have informed NPPC members that they will not enter former NDC mail at the Origin but instead will convert their former NDC mail to digital solutions. They are making that decision due to the Postal Service's poor Marketing Mail service performance, which becomes less reliable the further the mail travels through the postal system.

The Postal Service's elimination of NDCs and its desire to shift formerly NDC volumes to Origin entry is an example of its effort to in-source more activities, in this instance by pushing more mail upstream to further utilize their trucks. The rationale is that more fully loaded trucks result in lower unit costs for the pieces on the trucks and thus make destination entry discounts less desirable (and presumably smaller).

Mailers do not believe that holding mail until a truck is more fully loaded is a better way of providing service. instead, holding mail is counterproductive because it (1) causes mail to be delayed; and (2) hinders the ability of mailers to use options that would produce the lowest combined cost. Severe service failures almost always occur not at the delivery units, but further up the Postal Service chain of custody to which the DFA plan seeks to move more mail.

VII. Conclusion

The National Postal Policy Council urges the Commission to consider these comments in its review of the Postal Service's notice of rate adjustments.

Respectfully submitted,

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