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

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products (Consolidating Docket Nos. RM2024-4, RM2022-5, RM2022-6, and RM2021-2)	Docket Nos. RM2024-4 RM2022-5 RM2022-6 RM2021-2

REPLY COMMENTS OF THE NATIONAL POSTAL POLICY COUNCIL

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(September 12, 2024)

The National Postal Policy Council ("NPPC") respectfully submits these reply comments on the Commission's Advance Notice of Proposed Rulemaking.[1]

The Postal Service sees no new concerns, "no serious ill effects that must be immediately remedied," and "no obvious reason" for the Commission to accelerate the review of the system.[2] For that to be true, the Postal Service must believe that the current system should produce exorbitant rate increases, unprecedented volume declines, historically low productivity, systemically reduced service standards, and chronically inefficient workshare discount rates. Surely that is not what the statute requires.

Furthermore, the Postal Service appears to believe that it is entitled to unlimited revenue (abolish the price cap and reset rates) from captive Market Dominant mailers coupled with only lip service, at best, to its own obligation to *earn* retained earnings by

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1 Order No. 7032 (Apr. 5, 2024), 89 *Fed. Reg.* 25554 (Apr. 11, 2024) ("*ANPRM*").

2 *Initial Comments of the United States Postal Service In Response To Order No. 7032*, at 23 (July 9, 2024) *("USPS Comments").*

being more efficient and that service has little relevance to its pricing authority. That is the attitude of a monopolist that has lost sight of its public service mission and displays little regard to its customers.

The time has come to reform the system for regulating Market Dominant rates to provide the incentives and enforcement mechanisms necessary to achieve the results Congress intended. That is the consensus view of all participants in the mailing community except, unsurprisingly, the Postal Service. In this reply, NPPC below will respond to certain issues raised by the Postal Service and the Public Representative.

I. THE COMMISSION HAS AMPLE GROUNDS FOR REVISING THE SYSTEM ADOPTED IN DOCKET NO. RM2017-3

The Postal Service criticizes the Commission for even initiating this proceeding prior to the previously-announced 5-year review, arguing that it is inconsistent with Order No. 5763 and that no "new facts, analyses, or other empirical evidence demonstrate that circumstances have fundamentally changed."[3]

There was nothing binding about the 5-year period for a holistic review cited by the Postal Service.[4] And there is no dispute that regulatory agencies can change their position. Indeed, a regulatory agency is obligated to revisit its prior conclusions when changes in the law or facts no longer support previous findings. *E.g., National Cable & Telecommunications Association v. Brand X Internet Services*, 565 U.S. 967, 981 (2005) (stating that an agency "must consider . . . the wisdom of its policy on a continuing basis . . . for example, in response to changed factual circumstances"

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[3] *Id.*

[4] *Id.* at 43 & 45, *citing* Order No. 5763 at 267.

[citations omitted]); *Van Hollen, Jr. v. Federal Election Commission*, 811 F.3 486, 496 (D.C. Cir. 2016) (same). And, in Order No. 5763 (at 267), the Commission said that it would review the system in five years but also said it could "review and adjust certain components of the system sooner than 5 years if serious ill effects are evident." That is now the case. Service standards have been reduced, service performance has declined and has continued to decline through the third quarter of FY 2023,[5] annual productivity improvement has recently been at the lowest in recorded history, all while rates have risen with a speed and magnitude unprecedented since Congress reformed the law in 2006.

The Postal Service does not argue that the statute precludes the Commission from initiating this review. It merely quibbles that the *ANPRM* did not explain to its satisfaction why the Commission is revisiting the system at this time instead of on the timetable discussed in Order No. 5763, arguing that the Commission rejected similar concerns in May 2023 and that no "new evidence has become available since then."[6] Although a review was warranted at that time, the Commission has ample legal and factual reasons for not waiting any longer to conduct its review. Indeed, experience since May 2023 provides more than a full year of additional evidence demonstrating the need for a fresh look. As NPPC explained in its initial comments, the Commission should reconsider and revise the system adopted in Docket No. RM2017-3.

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[5] Service performance for the third quarter of FY 2023 fell compared to SPLY for all product categories in Market Dominant mail. *See Postal Service Quarterly Performance Reports* (August 9, 2024) for Presort First-Class Mail (93.1% [overnight], 90.9% [2-day], & 86.2% [3-5 day] compared to 95.2%, 94.2%, and 93.1% SPLY respectively); Single-Piece First-Class Mail (85.6% [2-day] & 72.5% [3-5 day] compared to 91.3% & 86.2 % SPLY respectively); and Marketing Mail (94.3% [destination entry] & 89.8% [end-to-end] compared to 95.9% & 94.5% SPLY respectively).

[6] *USPS Comments* at 27.

A. Changes In The Law Undermine The Basis Of The Conclusions In Order No. 5763

The Postal Service's reliance on Order No. 5763 is misplaced. Nothing about the five-year review stated in that order binds the Commission's hands. It did not interpret the law or define any rights or obligations. Moreover, that order and the substantive conclusions upon which it was premised have been undermined by recent legal and market realities. Even if the Postal Service were correct, however, NPPC's initial comments detailed discrete modifications to the current system that would likely better achieve the statutory objectives.

As explained in NPPC's initial comments and in others, but ignored by the Postal Service, Congress has amended the postal law three times since Order No. 5763 was adopted. Those changes in the law require a thorough review of the current system.

The most significant change came in 2022, when the Postal Service Reform Act ("PSRA"), *inter alia*, repealed the retiree health benefit prefunding obligation, including forgiving $57 billion in defaulted payments.[7] That accumulated deficit, driven almost entirely by the prefunding obligation, was the foundation of the Commission's conclusion in Docket No. RM2017-3 that the system was not achieving financial stability. By cancelling $57 billion of the prefunding obligation in 2022, the PSRA substantially relieved the primary driver of the Postal Service's annual GAAP net losses and negative balance sheet.

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[7] That change alone erased the foundation for the conclusions reached in Orders Nos. 4257, 4258, and 5763 in Docket No. RM2017-3, which were based on the law as it existed in 2018 and 2020. *See* Order No. 4257 at Table II-12 (noting that of the Postal Service's accumulated deficit of $59.113 billion in 2018, the retiree health benefit prefunding obligation accounted for $54.8 billion as of 2018, an amount that continued to increase until enactment of the PSRA in 2022).

Congress has subsequently granted the Postal Service some $13 billion more in capital funding, further improving its balance sheet and contributing significantly to the payment for electric vehicles in the Postal Service's new delivery fleet. In total, Congress provided the Postal Service with some $120 billion in cash and balance sheet improvements following Order No. 5763. Notably, the current system for regulating Market Dominant rates cannot be credited with these improvements.

Those legislative changes have erased the basis for the Commission's conclusions in Docket No. RM2017-3 while greatly improving the Postal Service's financial condition. Yet, until now, the Commission has never revisited its conclusions despite the changes in the law. It has a legal obligation to revisit its conclusions in light of changed circumstances, and this is a proper proceeding in which to do so.

B. The Current System Is Resulting In Higher Rates And Greater Volume Losses Than The Commission Had Expected

Changed factual conditions in the postal market also require a change of course at this time. The Postal Service argues that the "system is operating as reasonably expected."[8] Not so.

First, the system has resulted in rates significantly higher than expected in Order No. 5763. Although the Postal Service ascribes much of those increases to inflation, which has been large, the density and retirement authorities have had a nearly equal effect on First-Class and Marketing Mail, the classes primarily used by NPPC members. *See ANPRM*, Table II-2.

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[8] *Id.* at 40.

The density factor alone has raised rates by two-thirds the amount of inflation, which was unexpected. In Order No. 5763, the Commission looked back to calculate what the density authority would have been for the Fiscal Years 2013 through 2019. *See* Order No. 5763, Appendix A, Table A-1. That calculation showed a range of a high of 2.69 percent in FY 2013 and a low of 0.36 percent in FY 2017. However, since the authority has been in place, the actual density factors have been much different, ranging from a low of 0.583 percent to highs of 4.50 and 4.312 percent. In the Commission's Table A-1, the Postal Service hypothetically would have accumulated 8.95 percent of density authority (compounded) in the ***seven*** years from FY 2013 through FY 2019; in reality, the Postal Service has been granted 10.7 percent in density authority (compounded) in just ***four*** years (FY 2021 through FY 2024). Not only have the actual density authorities been materially higher than the Commission had anticipated, but mailers have been charged every penny of it.

Second, the Postal Service has lost more than 10 percent of its Market Dominant volume since the new system took effect,[9] although someone reading the Postal Service's comments would never know it. Plummeting volumes explain why the net revenue from Market Dominant products has increased by far less than rates; revenues have risen by only 4.4 percent despite price increases totaling more than 25 percent.[10] The Postal Service's boast that the current system has resulted in higher revenue

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[9] *Compare* Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2023*, at 106 (June 17, 2023) (109,279,417,000 Market Dominant pieces) *with* Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2021*, at 108 (May 18, 2022) ("*FY 2023 Financial Analysis*") (121,453,428,000 Market Dominant pieces).

[10] *Comments of the National Postal Policy Council*, Docket No. RM2024-4, at 12 (July 9, 2024) ("*NPPC Comments*").

shows neither that the system works nor that it appropriately balances the objectives; it merely shows that it continues to enjoy substantial market power over Market Dominant mail and appears more fixated on revenues than on the health of the postal system.

In Order No. 5763, the Commission acknowledged concerns that the higher Market Dominant rate increases it was authorizing could harm mailers and reduce volumes. However, nothing in that Order contemplated the precipitous volume declines that have occurred under the current system.

Despite the higher prices, the Postal Service has badly missed its financial projections in the Delivering for America Plan ("DFAP"), which is driving its current operations. Instead of the DFAP's projected positive net revenue in FY 2023, the Postal Service lost $6.5 billion.[11] Indeed, the DFAP's original projections have proven to be so far off from reality that the Office of the Inspector General has declared them useless.[12] Nor are the Postal Service's more recent forecasts necessarily more reliable. The Postal Service's Integrated Financial Plan for FY 2023 projected a controllable *net* income of $500 million, although the actual results for the year were a controllable *loss* of nearly $2.3 billion, and the Service is on track for a similar miss in FY 2024.[13]

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11 *See FY 2023 Financial Analysis* at 1.

12 "The DFA plan and its projections no longer provide a reasonable basis for comparisons to future years' results, and we could not link current progress on initiatives back to the DRA plan projections." Office of Inspector General, *State of the U.S. Postal Service Financial Condition*, Audit Report No. 23-167-R24, at 5 (June 21, 2024).

13 United States Postal Service, *Fiscal Year 2024 Integrated Financial Pla*n, at 1 (Statement of Operations) (Nov. 24, 2023).

For its part, the Postal Service blames its volume losses not on prices or flawed demand models, but on digital alternatives.[14] While NPPC has had longstanding issues with how the Postal Service's demand models treat price, it is striking that, despite the Service blaming diversion for volume losses, its own demand models do not include a factor for electronic diversion.[15] Nor does the Service address whether its recent dramatic price hikes have made electronic diversion more likely.

Of larger concern is that, despite being a public service, the Postal Service seems indifferent to the long-term consequences of ongoing volume losses to its financial sustainability. It evidently believes that large volume losses are acceptable so long as net revenue inches upward in the short run. Similarly, it argues that there is no evidence that holding prices at inflation would bring volume back.[16]

Its lack of concern about volume losses is particularly striking because elsewhere in its comments the Postal Service acknowledges that each year's volume decline negatively affects the next year's revenue.[17] That was the point of its successful argument to overturn the "count once" approach in the exigency case by which the

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[14] *USPS Comments* at 30. Although it cites the Commission as the basis for this assertion, the Commission's source was the Postal Service. For example, the Service states that the Commission continues to identify digital diversion as "the primary driver behind the ongoing volume declines," citing the Commission's Financial Analysis Report for FY 2023 (at 43). However, the Commission's citation for that statement is the Service's FY 2023 Form 10-K. *Id*. The Commission has never conducted an independent analysis of the demand for Market Dominant products, although it could do so. *See Public Representative Comments* at 65 (urging the Commission to conduct a demand elasticity study) ("*PR Comments*").

[15] Those models also suffer from a number of flaws, including an excessive reliance on trend and intervention variables that lack economic content. The Greeting Card Association filed a report by NDP Analytics that itemized a number of problematic aspects of the Postal Service's demand models. *See generally* GCA-LR-RM2024-4-1, *Critique of USPS Elasticities*.

[16] *USPS Comments* at 34.

[17] *Id.* at 9, n.14.

Commission had held, in effect, that a piece lost in year 1 was lost only once, and its continued absence in year 2 would not increase the amount of the Postal Service's loss due to the exigency.[18] The same concept applies here as well – a piece (particularly First-Class Single-Piece and Presort Mail) lost in Year 1 is likely lost in all subsequent years along with its postage revenue – which should give the Postal Service a strong reason to want to preserve, or increase, as much volume as possible.

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The changes in law and in market realities amply support the Commission's immediate review of the system for regulating Market Dominant rates. NPPC has proposed precisely specific, discrete modifications to the current system that are necessary for it better to achieve the statutory Objectives, taking into account the Factors.

II. THE POSTAL SERVICE'S REQUEST FOR LESS PRICE REGULATION WOULD RESULT IN EVEN HIGHER PRICES FOR MONOPOLY SERVICES

Although the Postal Service opposes the Commission's making any changes to the current system, it argues that any changes that might be made should allow it to raise Market Dominant rates even higher, asking for either "regulatory monitoring" – that is, no real regulation of rates – or a "reset" of rates to recover for all of the density lost since 2007.[19] The Commission should reject this latest effort by the Postal Service to avoid regulation of its prices for Market Dominant products.

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[18] *See Alliance of Nonprofit Mailers v. Postal Regulatory Commission*, 790 F.3d 1286, 189-93 (D.C. Cir. 2015)).

[19] *USPS Comments* at 51-61.

First, as was explained above, the Postal Service can no longer rely on Order No. 5763 to support its desire to extract even more revenue from the shrinking numbers of Market Dominant mailers.

Second, the Postal Service's request for "regulatory monitoring" is simply a euphemism for unrestrained pricing authority for Market Dominant products. Instead of administering a system that restrains prices, in a "regulatory monitoring" regime the Commission would merely "monitor the results" and, at some unspecified future time, review the system again.[20] Despite asserting that Market Dominant rates would be "fully regulated" in some unexplained mysterious manner,[21] the Postal Service dreams of a world with no substantive review of rate increases. In that dreamscape, there would be little left for the Commission to do but conduct the annual review process.

Abandoning rate regulation of a monopolist with clear market power would be an abdication of the Commission's responsibility. The Postal Service downplays its own market power as "myopic" for ignoring digital competition.[22] However, its own demand models repeatedly show that the demand for Market Dominant products is price inelastic.[23] That is consistent with the Service's repeated ability to increase net

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[20] *Id.* at 52.

[21] The Postal Service's notion that the "threat of Commission intervention itself would serve as a regulatory check" on its pricing of Market Dominant products in a "regulatory monitoring" scheme is laughable. The Postal Service has not shown restraint even under the current regulatory system.

[22] *USPS Comments* at 53. Although the Postal Service claims that it "faces intense pressure to keep the mail as attractive a medium as possible [and] to price at reasonable levels," it nonetheless still degrades service standards, targets even worse service performance, and has raised rates by the maximum amount possible at every opportunity under the current system. Aside from a few pricing innovations, the Postal Service has done little in recent years to make mail "as attractive as possible."

[23] Although the Postal Service's current demand models have questionable specifications, NPPC believes that Market Dominant mail is price inelastic, although perhaps less so than the Service's demand models indicate.

revenues from Market Dominant products despite precipitous volume losses, a fact demonstrating that it retains significant market power requiring strong and effective regulation.

The Postal Service's request for a rate "reset" that would allow it to recover all of its density loss since 2007 is similarly baseless.[24] It reflects both a rejection of what the Commission attempted to accomplish in Order No. 5763 and an unwillingness to accept responsibility for its own failure to control its costs.

In Order No. 5763 (at 24), the Commission quite properly denied the Postal Service's request to be made financially whole on the backs of Market Dominant mailers. Instead, the Commission adopted the current system to put the Postal Service on a "path" to financial stability, but it also fully expected the Postal Service to do its part by controlling its costs. The Postal Service's lack of productivity – or rather its record unproductivity – since 2020 demonstrates its failure to do its part.

Furthermore, the Postal Service notably did not quantify the size of the "reset" it asks to offset all of the density lost since 2007. NPPC, however, has calculated that the amount of any such reset based on density alone would amount to a one-time increase of between 17 and 23 percent, depending on the method of calculation.[25] One can only imagine how mailers' volumes would respond to an increase of such size.

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[24] *USPS Comments* at 55.

[25] The Postal Service's comparison (*id.* at 21) to the postage rates charged and regulatory systems in other countries is a classic apples-to-oranges. No other post has the economies of scale and scope of the Postal Service, which carries approximately half of the world's mail. Foreign posts operate under different legal regimes and regulatory oversight. If anything, the Postal Service's comparison shows that the American regulatory system over the years has effectively protected mailers of monopoly products from exploitation,

But there can be little doubt that the Postal Service would take every penny. The Postal Service has exercised the full amount of rate authority allowed it since Docket No. RM2017-3 in the name of "responsible stewardship." It has given no reason to expect that the Governors would act differently if given the opportunity to raise rates by the 17 to 23 percent that the Postal Service requests. The Postal Service's requests for rate deregulation or a "reset" should be rejected.

III. THE POSTAL SERVICE HAS NOT CONTROLLED COSTS

The Postal Service repeats its oft-stated complaint that Order No. 5763 did not authorize it to raise Market Dominant rates still higher. It states that "for any regulatory system to achieve the statutory objectives, it must enable the Postal Service to generate revenues from our market-dominant products that, in combination with the revenues generated from our competitive products and cost reduction measures, are sufficient to cover our costs, service our liabilities, and permit appropriate capital investments." *USPS Comments* at 49.

That is simply incorrect. The Postal Service's position that the level of its costs, liabilities, and desired investments should dictate the amount of revenue it should be allowed to recover from Market Dominant products turns Section 3622 on its head. The PAEA's regulatory system eliminated cost-of-service regulation. Instead, the PAEA regulatory system largely deregulated Competitive products while capping prices for Market Dominant products. The PAEA's regulatory system expects the Postal Service to manage costs within the revenues measured by a cap on the Market Dominant side plus uncapped rates for Competitive products, encourages it to increase volume, and allows it to retain all of the earnings when it is successful in doing so.

Disregarding the PAEA, the Postal Service criticizes the Commission for adopting a system that was intended to put the Service on the “path” to an improved financial condition, with the Postal Service responsible for doing the rest of the work, including improved cost control. The PAEA does not place on Market Dominant mailers the responsibility for making the Service financially whole. The Postal Service has yet to deliver on its part, and the current system does not sufficiently incentivize it to do so.

A. The Postal Service Faults The Commission For Not Identifying Cost Saving Possibilities

In a strange passage, the Postal Service says: “But rather than attempting to design the modified system based on an assessment of reasonably available cost-cutting potential, the Commission filled the still-yawning net-income gap with an unsupported expectation that the Postal Service could somehow find presently unidentified ways to do so on our own.”[26]

That is a remarkable sentence coming from the Postal Service.

The Postal Service regularly reminds everyone that it is the operator and the Commission merely a regulator that should not meddle in operational matters. It is not the regulator’s role to provide a plan for reducing costs, although it surely has a role in reviewing that such a plan is effective.[27] In fact, for many years the Commission has

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[26] *USPS Comments* at 41-42 & n.124. Of course, it is not the regulator’s job to identify the cost savings opportunities – although the Commission has done so regularly – and even less its job to implement them effectively.

[27] The Commission routinely does so, at least indirectly, in the annual compliance review process. Also, currently pending is a proceeding that could clarify the Commission’s role in more directly reviewing at least some aspects of the Delivering for America Plan. *See* Order No. 7061, Docket No. PI2023-4 (Apr. 26, 2024) (Show Cause Order) and the Postal Service’s response thereto. As of this writing, the Postal Service may soon file a nature of service case covering some aspects of the plan. See Order No. 7414, Docket No N2024-1 (Aug. 26, 2024). In some situations, Congress specifically has directed the Commission to review a Postal Service plan, such as the provision in the PSRA directing it to study flats costs and for the Postal Service to propose a plan to address those costs, subject to the Commission’s

worked diligently to assist the Postal Service by identifying cost problems and root causes. It has done so consistently in annual compliance determinations[28] and in the Flats Study in FY 2023 mandated by the Postal Service Reform Act. But it is the Postal Service that must do the hard work of actually solving the problems.

In addition, mailers often offer to provide practical advice through MTAC and other avenues as to how postal operations might be improved. Sometimes these efforts bear fruit, but there have been too many times when mailers' inputs are ignored.[29]

And most ironically, the Postal Service itself, only some five months after the ink had dried on Order No. 5763, issued the Delivering for America Plan ("DFAP") replete with, *inter alia*, until-then unidentified cost savings opportunities that it had devised on its own.[30] The Postal Service proudly states (at 2) that the initiatives presented in the DFAP "are seeking to do precisely what the Commission said was necessary when it designed" the current system.

NPPC takes no view on whether the DFAP is the correct plan. However, NPPC does believe that it is essential for the Postal Service to implement whatever plan it believes appropriate in a clear, effective, and efficient manner without impairing

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approval. As of this writing, the Commission has not yet approved the Postal Service's plan. *See* Order No. 6803, Docket No. SS2022-1 (Nov. 17, 2023).

[28] The Commission, evidently frustrated with results from previous efforts, took a more active role in beginning in FY 2015. *See* Postal Regulatory Commission, *Annual Compliance Determination Report Fiscal Year 2015*, at 51-65 (Mar. 29, 2016) (focusing on flats costs). *See also* Order No., 5763, n.386. The Commission has continued to provide deep analyses of cost problems in subsequent annual compliance determinations.

[29] The Postal Service's recent proposal to require cross-bundling of flats is a very recent example. 89 *Fed. Reg*. 50542 (June 14, 2024). *See Letter to Mr. Dale Kennedy, Director, Product Classification, U.S. Postal Service from Robert Galaher and Arthur B. Sackler* (July 15, 2024) (Attachment 1).

[30] United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (2021).

service.[31] That is the responsibility of management. Despite the Postal Service's view that the DFAP shows that additional pricing would not "disincentivize cost cutting,"[32] its performance to date, including negative productivity growth, suggests that the increased pricing authority (and particularly the density factor, which is where inefficiency is largely recouped) has indeed softened the Service's focus on reducing costs.

The Commission should revise the system, as recommended in NPPC's initial comments, to strengthen the Postal Service's incentives to control costs.

B. Changes In Real Market Dominant Unit Costs Since 2007 Appear Due To Shifts In The Mail Mix Rather Than Postal Service Efforts

Our initial comments showed that under the current system, real Market Dominant unit costs rose in FY 2023 by 5.2 percent.[33] Real unit costs had a one-time dip in FY 2022 due to the non-attribution of retiree health benefit normal costs before resuming their upward trend.

The Public Representative's initial comments presented an analysis purporting to show that real unit Market Dominant attributable costs have gradually declined since 2007 and, despite an uptick beginning in 2022, remain lower than in 2007.[34] That

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31 Implementing even a superb plan in too great a hurry inevitably will lead to problems. Recently the Office of the Inspector General has identified issues that the Postal Service experienced when it began to implement some of the facility changes in the DFAP. *See* Office of Inspector General, *Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA*, Audit Report Number 23-161-R24 (Mar. 28, 2024). Moving too fast or spending money too rapidly can be needlessly wasteful. See, Office of Inspector General, Effectiveness of the New Regional Processing and Distribution Center in Atlanta, GA, Audit Report Number 24-074-R24 (Aug. 28, 2024) (identifying serious problem in implementation of Atlanta RP&DC causing "an immediate and significant decline in service performance").

32 *E.g., USPS Comments* at 59.

33 *NPPC Comments* at 20.

34 *See PR Comments* at 42, Figure V-1.

analysis indicates that real Market Dominant unit costs may have peaked in 2009 at approximately $0.20 per piece. The Public Representative's analysis, however, did not adjust for the change in mail mix (nor does it adjust for the exclusion of retiree health benefit normal costs beginning in FY 2022).

NPPC has adjusted the Public Representative's analysis to isolate real Market Dominant attributable costs over time holding the mail mix constant. *See* Figure 1 below. The analysis begins with 2009, as the Public Cost and Revenue Analysis Reports in FY 2007 and FY 2008 did not match the format from FY 2009 to the present:

Figure 1:

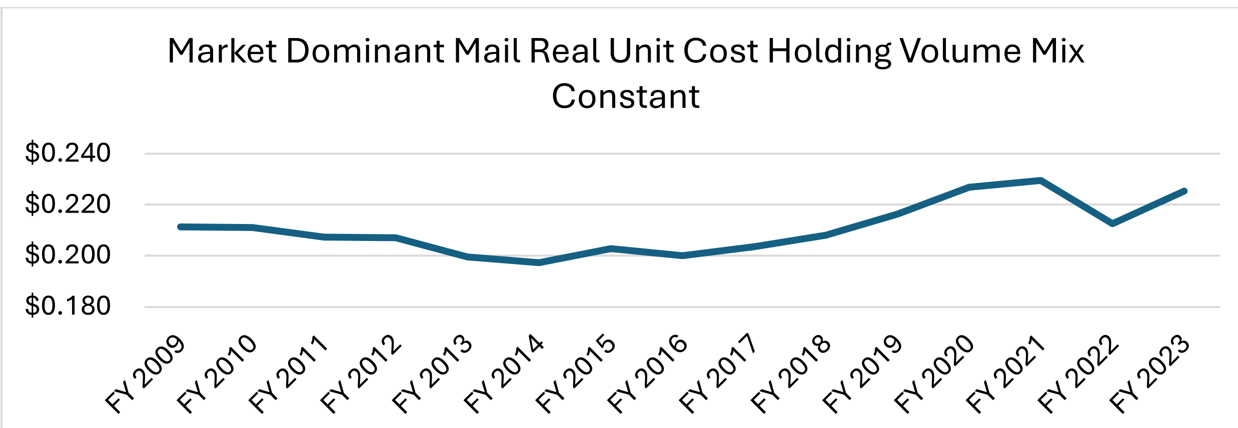

Figure 1 follows the same general pattern as the Public Representative's Figure V-1 (including the downward blip in FY 2022 due to the nonattribution of retiree health benefit normal costs that began that year). However, Figure 1 differs by showing that if the Market Dominant mail mix in FY 2023 had been in place since FY 2009, real unit costs would have been *higher* in 2023 than in 2009.[35] That suggests that per-unit costs have declined due to changes in the mail mix *rather than cost-saving actions by the*

[35] Figure 1 holds mail mix constant both at the product level within each Market Dominant mail class as well as the mix of each class with respect to the total of Market Dominant mail.

Postal Service. That is consistent with the trend in First-Class Mail towards less Single-Piece and more Presort Mail, and in USPS Marketing Mail to a larger proportion of letter mail compared to flats mail over the same period.

One explanation for this apparent increase in real Market Dominant unit costs, if the mail mix were held constant despite the volume losses, is poor productivity. The peak real unit cost, holding mail mix constant, occurred in FY 2023, the year in which the Postal Service experienced a negative 4 percent decline in productivity. Workhour reductions have not kept pace with volume declines, despite being a clear objective in the DFAP.[36] That is the clearest evidence of the Postal Service's failure to control costs while operating under the current plan.

Tellingly, the Postal Service itself does not claim that it has actually reduced Market Dominant unit attributable costs. Although it takes credit for recently having reduced transportation costs and workhours (*USPS Comments* at 16), its comments never claim to have reduced unit costs, whether real or nominal, over any period of time.

C. The Postal Service Cannot Blame Exogenous Costs For Its Inability To Control Costs

The Postal Service devotes many pages to discussing costs it contends are outside of its control. However, its concern about exogenous costs is a red herring that does not excuse its own failures.

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[36] *Delivering for America Plan* at 43 ("we will capture 100 percent of the work hours associated with projected volume declines").

First, the retiree health benefit prefunding obligation enacted in the PAEA was not exactly an exogenous cost – it was based on the Postal Service's own employees – although the Congressionally-imposed funding schedule was unique. Regardless, it was repealed in 2022 so is no longer a consideration.

Nor is density truly an exogenous factor. The Postal Service has significant influence over institutional costs – they are its own costs, after all – and through pricing and product design it can influence volume. It also has some influence over the number of delivery points, as it increasingly seeks to deploy cluster boxes or encourage the use of post office boxes. It has even more control over the cost of serving them,

To the extent the size of its business is based on what customers choose to buy – that is, demand – all businesses face such "exogenous" issues. The Postal Service can best affect that by providing good service at reasonable prices, not by devaluing its own offerings while hiking rates.

The Postal Service partly blames inflation for its poor performance.[37] The Service claims that "high inflation has accounted for about 40 percent" of its recent net losses.[38] As a preliminary point, NPPC has been unable to replicate that figure, and the Service has not provided any other analysis beyond a citation to the Postmaster General's testimony before a Senate committee.[39]

The Commission recently considered the effects of inflation on the Postal Service and concluded that the CPI-based rate increases largely offset the effects of inflation on

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37 *USPS Comments* at 19-20 & 34-36.

38 *Id.* at 20.

39 *See id.* at n.52, *citing* the postmaster general's May 20, 2024, testimony before the Senate Committee on Homeland Security and Governmental Affairs, at 8.

the Postal Service's costs. *See FY 2023 Financial Analysis* at 82-85 (reviewing effects of inflation on COLAs, fuel, purchased transportation, rent, and CSRS and FERS amortization. Although inflation, including the price of gasoline, is out of the Postal Service's control, it is a cost faced by all businesses and properly is recovered through the CPI rate authority.[40]

Nor does the OIG report cited by the Postal Service conclude that inflation necessarily hurts the Service. It notes, among other things, that labor is the single biggest cost, by far, and cost of living adjustments in its labor agreements increase wages less than the CPI-W.[41] It also notes that there is also some delay between when inflation occurs and when the COLA adjustments kick in.

The Postal Service points out, accurately, that there is also a lag between when it experiences inflation in its costs and the later period when it can adjust rates by the amount of increase in CPI.[42] But it is hardly unique in that respect; most businesses also experience the same lag. Businesses in competitive markets generally are reluctant to impose higher prices on their customers until they feel compelled to, which can occur many months later. The system for regulating Market Dominant rates substitutes for the (missing) competitive pressure but there is no reason it should operate differently.

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40 Carving out particular expenses faced by all businesses that are purportedly "outside of the Postal Service's control" for recovery through separate surcharges is not what Congress intended.

41 *OIG Inflation Report* at 5-6.

42 *USPS Comments* at 20, n.51 (citing a 2022 OIG Report) & 36-37. See also *FY 2023 Financial Analysis* at 85.

And although it is true that there is a lag between when inflation accrues and when the Postal Service is able to raise rates by the amount of inflation, the reverse is true as well. When inflation falls, as it appears to be doing at the present time, the same lag grants the Service authority to raise rates by more than the actual inflation that is occurring when the new rates that reflect that inflation are implemented. That at least partially offsets the "shortfall" on the other end of the lag, and of course the higher rates remain in the base going forward. Furthermore, the Postal Service benefits even more from the current Commission regulations that do not require a rate reduction if CPI becomes negative.

Finally, the Postal Service complains that other businesses can raise prices at any time, while its ability to do so is restrained by the Market Dominant regulatory system. That complaint is unfounded. First, the Service's pricing constraint is limited to Market Dominant products; it can change prices for Competitive products at any time on short notice and often by above-inflation amounts.[43] Second, most businesses have an incentive not to raise prices lest they risk losing business to competitors, and typically first look instead to streamlining their operations. In contrast, the Postal Service has no competitors and has no real incentive under the current regulatory system for Market Dominant mail not to raise rates by the full amount of inflation via the CPI rate authority. Indeed, raising rates appears to be the Service's primary go-to option.

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43 Office of Inspector General, *Inflation and the U.S. Postal Service*, Report Number RISC-WP-22-008, at 16 (Aug. 16, 2022) ("*OIG Inflation Report*").

IV. IF CIVIL SERVICE RETIREMENT SYSTEM REFORM OCCURS, THE RETIREMENT AUTHRORITY MUST BE REDUCED OR ELIMINATED

The Postal Service blames some of its operating losses on the continued misallocation of costs for Civil Service Retirement System ("CSRS") benefits.[44] The Service's DFAP was based on an expectation that the Office of Personnel Management ("OPM") would reallocate those costs to eliminate the Service's current annual amortization expense. However, that has not occurred, and the Justice Department's Office of Legal Counsel has opined that OPM lacks the statutory authority to do so, which means that it appears an Act of Congress will be necessary to correct the misallocation.

Setting aside the separate question of why the Postal Service would rely on such an uncertain change in its plan, NPPC agrees with the Service (as does the Commission) that the CSRS costs should be reallocated. However, the Commission should ensure now that if Congress were to act to rectify the misallocation, the retirement authority in the current rate system would be eliminated, and amounts awarded to date removed from the rate base, as there would be no justification for those sums.

V. RATE INCREASES UNDER THE CURRENT SYSTEM ARE NOT PREDICTABLE OR STABLE

The Public Representative asserts that "rates have been largely stable and predictable" under the current system. *PR Comments* at 30. While the timing of rate increases has, unfortunately, become far too predictable due to the Postal Service's

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[44] *USPS Comments* at 18.

insistence on raising rates twice a year, the increases themselves are not stable nor nearly as predictable as the Public Representative appears to believe.

In FY 2022 (the first full year under the current system), First-Class rates rose by an average of 6.605 percent. Order No. 7032, Table II-2. In FY 2023, they rose by an additive total of 9.578 percent, or 9.804 on a compounded basis. *Id*. In FY 2024, they have risen by 9.713 percent on an additive basis or 9.865 percent compounded. *Id*. & Order No. 7155, Docket No. R2024-2, at 6 (May 30, 2024). These increases are quite large by any reasonable measure. Nor is the range inconsequential. To business mailers, a three percent difference in rate increases is a substantial amount. The combination of inflation, which has ranged widely from 1.244 percent to 5.135 percent over this period, and density, which ranges by similar amounts, is quite unstable.

These increases experienced under the current system have not been reasonably predictable. While some sophisticated mailers may keep an eye on the CPI reports, the data underlying calculations determining the retirement and, in particular, the density authorities are not known until the end of December because the Postal Service does not publish the relevant data until then. By then, it is too late, because business mailers have long since set their mailing budgets for the year.

VI. THE POSTAL SERVICE IGNORES THAT IT HAS REDUCED SERVICE STANDARDS CONTRARY TO OBJECTIVE 3

Objective 3 provides that the Market Dominant rate regulatory system shall be designed to “maintain high quality service standards” that are established under section 3691. 39 U.S.C. §3622(b)(3). That Objective clearly has not been achieved by the current system.

Although the Postal Service devotes several pages to putting the best light on its recent service performance, it completely ignores that it responded to the adoption of the current system by reducing service standards twice in formal nature of service change cases:

- Service standards for First-Class Mail and end-to-end Periodicals (Docket No. N2021-1); and
- Critical Entry Times for Periodicals, which effectively slowed delivery for large portions of Periodicals Mail (Docket No. N2022-2).

Furthermore, as the Public Representative points out, the Service has made numerous adjustments to business rules or entry/preparation requirements that effectively shifted costs to mailers or slowed service.[45] These ongoing reductions in the service it provides to Market Dominant mailers are far more consistent with the behavior of a profit-oriented enterprise than a statutory public service.

The Postal Service comments attempt to deflect the issue from service standards to service performance. This itself is ironic, because in the *Delivering for America Plan* (at 52) it promised that setting “attainable standards” [that is, the reduced standards now in place] we will then hold ourselves to actually meeting those standards on a consistent, sustained basis, thereby ensuring that they establish meaningful customer service expectations.” Now, however, to argue that service performance has improved since Fiscal Year 2021 it compares actual service not to the so-called “attainable standards,” but to the lower “targets” that it sets for itself.[46]

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[45] *See PR Comments* at 77-88. As just one additional example, the Local (apparently to be renamed Regional) Transportation Optimization program appears very likely to slow delivery times for at least mail entered in rural areas, and possibly for Single-Piece mail more generally.

[46] *USPS Comments* at 39.

This is unavailing. The *DFAP* had it right, because the statutory text specifically says "service standards." Those are the focus on the objective, not the Postal Service's self-selected "targets." That standards are more important than targets is evident from the fact that Congress assigned the Commission a role in establishing service standards. Section 3691 directs the Postal Service to adopt service standards "in consultation with" the Commission. 39 U.S.C. §3691. Furthermore, Section 3661 directs the Postal Service to seek an advisory opinion from the Commission when it wants to make a change in the nature of postal services that has nationwide effects, and it has done so numerous times. 39 U.S.C, §3661(b).

In contrast, the statute does not mention service performance "targets" at all. And, accordingly, the Commission has no role in their setting. The Postal Service sets those unilaterally. All the Commission does is assess, in the annual compliance review process, whether the Service has met its self-selected targets.

Moreover, it is unclear whether, despite devoting several pages to the matter, the Postal Service even believes service performance is relevant in a review of the ratesetting system, noting that no statutory Objective or Factor specifically mentions "service performance."[47] Yet the Postal Service's dismissive attitude towards service performance is not justified under the statute either. The statute provides not only that high quality service standards be maintained – which has not occurred – but that "the

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[47] *Id*, n. 118.

value of the service actually provided" is a factor that the Commission must consider. 39 U.S.C. §3622(c)(1).[48]

When service does not live up to the advertised standard and the provider prefers to talk in terms of lesser "targets," the value of the service received is diminished and demand wanes. Paying full price for a substandard product is not a good value. And that problem is compounded when, as the Commission has found, the Postal Service does not even achieve the majority of its self-chosen targets.[49]

The statutory Objective of the system is to "maintain high quality service standards." The Postal Service has failed to maintain high quality service standards under the current system and has struggled even to meet its own self-selected lesser targets. The current system has failed to achieve Objective 3.

VII. THE POSTAL SERVICE'S REQUEST FOR AUTHORITY TO CHARGE INEFFICIENT RATES FOR DROPSHIPPING IS UNNECESSARY

The Postal Service asks the Commission to exempt dropship discounts from 39 C.F.R. §3030.282, and §§3030.284-.286, which require workshare discounts to be based on Efficient Component Pricing ("ECP").[50] The Postal Service is concerned that the current dropship rate design gives rise to "free rider" and "cream-skimming" concerns that make ECP inapplicable to destination entered pieces.

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48 *See also PR Comments* at 82-85 (discussing importance of targets and actual service performance).

49 *See* Postal Regulatory Commission, *Annual Compliance Determination Fiscal Year 2023*, at 88-89 (March 28, 2024) (finding that the Postal Service failed to provide service meeting its own targets for the majority of Market Dominant products in FY 2023, despite changing the standards to give itself more time).

50 *USPS Comments* at 62-64.

The reply comments of Professor John Panzar, being filed concurrently today by several mailer organizations including NPPC,[51] demonstrate why the purported problem raised by the Postal Service does not support the Service's request for elimination of the ECP requirement for destination entry discounts. As Professor Panzar explains, the Postal Service's discussion of cost heterogeneity could have merit but is an indictment not of ECP but rather of its own rate design.

The Postal Service's position is that dropshipped mail avoids different amounts of costs depending upon the characteristics and geographical location (relative to entry point) of the mailer. It argues that in at least some cases, the current destination entry discounts may not send efficient price signals. This is because pieces that the Postal Service must transport longer distances presumably impose higher costs than those that are entered nearer their destinations, and pieces entered at destination facilities conceivably could receive discounts that exceed the costs avoided.[52]

The Postal Service's concern may be theoretically correct in some situations but its concern does not require the remedy it proposes.[53] To the extent that the problem discussed by the Postal Service is exists in the real world – an empirical matter on which NPPC expresses no view – a better solution would be to correct the rate design

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[51] *See Reply Comments of John C. Panzar on Behalf of the Alliance of Nonprofit Mailers, the America Commerce Marketing Association, the Association of National Advertisers, the Association of Postal Commerce, the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Package Shippers Association*, Docket No. RM2024-4 (Sept. 12, 2024) ("*Panzar Reply*").

[52] *Id.* at 75-76.

[53] The Postal Service's argument does not apply to presortation discounts because mail processing volume variability is almost 100 percent and thus not subject to returns to scale and scope. See *USPS Comments* at 4 (noting that dropshipping is "qualitatively different from other worksharing activities"). *Accord Panzar Reply* at 13.

to address the cream-skimming concern, not to exempt an entire category of workshare discounts from the requirement that they be priced efficiently.[54]

As Professor Panzar suggests, the appropriate solution, if a change is warranted, would be to introduce zoning concepts into the destination entry discount rate design, to which ECP principles could readily apply. A zoned rate design could directly and efficiently address the Postal Service's concerns.

In contrast, the Postal Service's proposed solution – exempting dropship discounts from ECP principles entirely – could result in very inefficient pricing. The Postal Service proposes no standard by which it would set dropship discounts to reflect avoided costs, nor does it suggest that it would do so. Removing the ECP requirement from destination entry discounts would leave no principle by which they would be set, so presumably the Postal Service could price them very inefficiently if it considered doing so to be in its interest.[55] Professor Panzar's reply comments usefully review the Postal Service's tendency to set inefficient pricing signals during the period between 2007 and the effective date of the rules adopted in Docket No. RM2017-3.

Accordingly, the Commission should reject the Postal Service's request to exempt dropship discounts from the workshare discount regulation.

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[54] The Postal Service does not contend that dropshipping is not a workshare discount, as the practice obviously performs work that the Service otherwise would perform. 39 U.S.C. §3622(c)(10(A)(ii).

[55] As distinct from the interest of the broader postal community. For example, its desire to "reference demand" in pricing dropship discounts hints that it might seek to replicate in Market Dominant destination entry rates something approaching its recent 40 percent increase in Parcel Select DDU rates. The Postal Service appears to misunderstand that the purpose of ECP is to send accurate pricing signals to enable minimizing costs for the postal sector, not solely for the Postal Service. *See USPS Comments* at 78 (focusing on its own "transportation economies").

VIII. CONCLUSION

In its initial comments, NPPC offered a set of proposals to modify discrete aspects of the current system designed to rectify the serious ill effects of the current system. The proposals are designed to shape a system that will truly encourage the Postal Service to manage its costs better while improving service. The bottom line is that the Service must offer a better quality product at a more attractive price in order to attract the business that it needs for a sustainable future.

For the foregoing reasons, the National Postal Policy Council respectively urges the Commission to reject the Postal Service's request for either inaction or higher rates, and to modify the system for regulating Market Dominant rates as set forth in NPPC's initial comments.

Respectfully submitted,

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ATTACHMENT 1

Letter to Mr. Dale Kennedy, Director, Product Classification, U.S. Postal Service from Robert Galaher and Arthur B. Sackler (July 15, 2024)

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July 15, 2024

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Re: Comments on USPS Proposed Rules – Securing Bundles of Flats [Federal Register Vol 89, 50542-50543]

The National Association of Presort Mailers (NAPM) joined by the National Postal Policy Council (NPPC), respectfully submit the following comments on the Postal Service's proposed rules, Securing Bundles of Flats, published in the *Federal Register* on June 14, 2024 (89 Fed. Reg. 50542).

NAPM members process and prepare commingled and comail mailings, taking mail from many mail owner customers and combining it into one mailing to be entered to the USPS. Our members process First-Class Mail (FCM), Marketing Mail, and other mail classes and products. Many of our members process flats, both FCM and Marketing Mail, and utilize both bundle-based and tray-based sortation of flats. We also have suppliers & solutions providers as members, many of which offer flats-related hardware/software.

NPPC is an association of large business users of letter mail, primarily in automation First Class, 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. A number of NPPC members employ flats as well and are quite concerned about the proposed new bundling rules.

Good Bundles / Bundles Prepared in Flat Trays

Mailers for many months now have been working collaboratively with the USPS as it has developed and implemented its Mail Irregularity System (MI) which is designed to capture data on mail quality issues and provide actionable data to mail preparers so that mail preparation quality issues are identified and can be resolved. Flats bundle breakage has been the primary focus of the types of issues the USPS has instructed its plant personnel to capture and report. The USPS has had teams out in the top 10 facilities where bundle breakage occurs, to analyze the issues firsthand and train plant personnel how to use the MI system to report these occurrences. The MI system is designed to feed the data on bundle breakage to the mail preparer through the Mailer Scorecard. The USPS discusses these reports and other data from the Mailer Scorecard with the mailer during regular monthly quality reviews, or sooner if there is a significant issue being reported.

NAPM has worked with the USPS on the error codes and types of errors captured by the MI system – both manually and through automated logic. We have worked with the USPS on the Mailer Scorecard data aspects. We have regularly communicated to the USPS that we are prepared to test solutions, share ideas, and work collaboratively on the issue of bundle breakage. We have worked collaboratively with the USPS on these issues, despite the fact that there is little to no bundle breakage being reported for any NAPM or NPPC members.

None of NAPM's members has received any data from the USPS that the flats bundles they prepare are breaking. NAPM and NPPC members largely prepare flats bundles in flats tubs/trays for entry to the USPS, using either rubber bands or straps. First-Class Mail flats bundles prepared in flats tubs/trays are entered to USPS facilities and immediately processed on flats sorting equipment, with little volume processed on bundle sorting equipment. No data is being received that these bundles are breaking. NAPM members also prepare Marketing Mail flats bundles in flats tubs/trays with bundles secured by either rubber bands or straps. Again, there is no data from USPS to show that these bundles are breaking.

NAPM members that have occasionally presented flats bundles with strapping in flats tubs/trays have been told by USPS plant management not to strap the bundles because it adds labor costs for USPS to remove the strapping and is not necessary for First-Class Mail flats bundles in flats tubs/trays.

NAPM and NPPC strongly urge the Postal Service, if it implements the proposed rules, to make an exception for flats bundles prepared in flats tubs/trays. There is no data to show that bundles prepared in this manner are having issues of breakage. Requiring mailers to cross-strap these bundles will levy significant and unwarranted costs on the mail preparer. More broadly, we urge the Postal Service to consider the operational flow and processes of different container levels of flats bundles and to not apply these proposed rules to flats bundles that are not processed on bundle sorting equipment. For example, 5-digit containers of flats bundles would not be processed on APPS, they would go directly to an AFSM for processing, avoiding any potential bundle breakage.

We urge the Postal Service to explore an alternative approach to the problem of bundle breakage.

The Proposed Changes are Premature

The USPS acknowledges that it has scheduled testing around bundle breakage to be done in the coming months. It also has said that there may be additional bundle preparation rule changes made, such as size or weight of bundles. The USPS recently visited facilities and met with several large flats mailers to see their processes. The USPS has also talked about developing and implementing a bundle integrity test at acceptance, but has not done so.

In addition, we feel strongly that the USPS should more aggressively explore bundle breakage issues caused by its own equipment and processes, particularly bundles processed on APPS equipment. As the USPS continues to modernize its network, it is using SIPS (Single Induction Parcel Sorter) machines to process flats bundles in some locations with reportedly significantly less bundle breakage. But it is not clear in the USPS future state what percentage of flats bundles may be processed on these new gentler SIPS machines vs. APPS machines that contribute to bundle breakage.

Despite the analysis and work still to come on bundle breakage, the USPS has proposed changes to bundle preparation that will significantly negatively impact all mail preparers of flats bundles, whether their bundles are breaking or not. The USPS also has provided industry with no information on any efforts to improve its bundle sorting equipment and processes, which the USPS has acknowledged can cause bundle breakage. The USPS is also in the early stages of a significant redesign of its network, which may include different processes and equipment to sort flats bundles. Has the USPS looked at these new processes/equipment to determine if bundle breakage is still a significant issue with those internal changes? If it has, and the new equipment/processes reduce bundle breakage, then that needs to be taken into consideration as the USPS determines its strategies. If not, then the USPS should perform such tests and analysis before making sweeping preparation changes that negatively impact the flats industry and may not be necessary if bundle breakage is reduced by changes in USPS equipment/processes.

We believe that these proposed rules are premature given the work and analysis still to come. We strongly recommend that the USPS pause these proposed changes until it concludes the further study it has scheduled and completes analysis of potential improvements to its own equipment and processes.

For these, and the other reasons discussed in these comments, NAPM and NPPC strongly believe that these proposed rules are simply premature. Given the work and analysis still to come, the USPS should pause these proposed changes until it concludes the further study it has scheduled and completes analysis of potential improvements to its own equipment and processes.

Cost of Strapping Requirements

There is a significant cost to mail preparers to comply with the proposed cross-strapping requirements. Mail preparers that currently do not have strapping equipment will bear the cost of purchasing equipment. From discussions with NAPM and NPPC members as well as manufacturers of strapping equipment, the average cost for a quality production capacity strapping machine is around $15,000. In addition, there are maintenance costs, labor costs to operate the equipment, materials costs for strapping, training costs, and cost of additional facility space to accommodate the operation. While there may be less expensive equipment available for smaller manual strapping stations, those do not apply a strap that is secure enough to prevent breakage on palletized bundles.

These costs would be incurred by mail preparers who would be forced to pass much of the cost to their flats mail owner customers. This would increase those customers' cost to mail and cause them to look at alternatives, driving even more volume out of the mail at a time when volume declines are already accelerated.

In addition, increasing the amount of plastic strapping used by mailers has negative environmental impacts and even if the USPS has recycling programs in place for used strapping material, there will be additional labor and cost for the USPS to recycle more strapping.

The Implementation Date is Unachievable

The USPS proposes an August 18, 2024 implementation date for the proposed bundle preparation changes, which is simply unachievable for most mail preparers. Strapping equipment manufacturers advised NAPM that for equipment currently in inventory today, a minimum of 12 weeks lead time from order to receipt would be required, plus additional time to install. But there are many variables that determine the type of strapping system a mail preparer would need. Strapping equipment manufacturers advised that for certain types of systems and production, it can take 8-12 months before such systems can be purchased and installed.

The comment deadline for the proposed rules is July 15 – even if the USPS could make a final decision and publish final rules quickly, that would still leave a month or less for mailers to comply, which is totally unrealistic. In addition, before final rules can be published, many mail preparers will have already printed and prepared flats for mailing after the August 18 implementation date. Those flats would be prepared according to the existing preparation standards.

We are concerned that if the USPS moves ahead with the August 18, 2024, implementation date, it would have to allow exceptions for many mailers that can not comply with the deadline. Exception requests which would have to be submitted from the mail owner level could reach the thousands, creating a significant administrative burden for the USPS.

Conclusion

We support the Postal Service's ultimate goal of remedying inefficiencies in the processing and delivery of flat-shaped mail, reducing the USPS costs and encouraging volume growth. We strongly urge the USPS, however, to work more closely with the flats mailing industry on development of processes that will help address the issue of flats bundle breakage without unfairly penalizing all flats mailers and driving volume out of the mail. We believe the proposed rules to be costly, unfair and overkill, and the proposed implementation date is unachievable. We strongly urge the USPS to pause these proposed rules and work closely with the flats mailing industry to test other ways to reduce flats bundle breakage.

Respectfully submitted,

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