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The American Consumer Institute
Center for Citizen Research

Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. RM2017-3 Submitted to the United States Postal Regulatory Commission January 31, 2020

The American Consumer Institute ("ACI") hereby submits these comments to address matters surrounding the recently revised notice of proposed rulemaking by the Postal Regulatory Commission ("the Commission") aimed at modifying the system for regulating rates and classes for Market Dominant products, in accordance with requirements of the Postal Accountability and Enhancement Act (PAEA) calling on the Commission to review the first 10 years of the existing system.

The American Consumer Institute is an independent organization founded in 2007. The Institute's mission is to identify, analyze and project the interests of consumers in selected legislative and rulemaking proceedings in information technology, health care, insurance, postal and other matters.

Consistent with previous findings and observations, the United States Postal Service ("USPS") continues to be exposed to fiscally perilous management, including incentives to engage in shifting revenues and profits from market dominant services to competitive services, as well as shifting costs and risk from competitive services to market dominant services, among a litany of further balance sheet abuses.[1]

Such susceptibilities come as a consequence to the reticence of USPS management to grapple with the realities of individual service costs and revenues, and leadership's disregard for instituting a full cost accounting method. Given the insufficiencies, and matters discussed further below in our comments, it is clear that the fiscal deterioration of the USPS cannot be surmised from an alleged failure of the current price cap mechanism; and thus disqualifies augmented USPS pricing discretion as a theoretically effective tool to achieve the goals of the Postal Service Board of Governors to guide the organization towards a fiscally sustainable position.

The USPS' absence of a commensurate and enforceable cost accounting method has been imbued in the USPS' apparent strategy to subordinate core letter mail monopoly services for

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[1] "Comments of American Consumer Institute, Center for Citizen Research," Docket No. RM2017-3, submitted to the Postal Regulatory Commission, February 23, 2018.

purposes of securing a stable platform upon which it can intervene within competitive markets nationwide.

As revealed by USPS data, the agency has established clear inclinations towards competitive arenas as the "shipping and packages" segment now accounts for more than half of the USPS total delivery weight (51.7 percent).[2] Abetting this transition toward significantly greater market risk has been the USPS' extensive expenditures on labor, capital and services for the provision of shipping products.

Most overtly, the USPS aims to award a $6 billion-plus contract for the production phase in 186,000 next-generation trucks in 2020, in order to replace current vehicles, which as reports indicate, are "too small to accommodate the e-commerce packages that make up the bulk of the mail today."[3]

Competitive shipping services now account for 32 percent of total USPS revenues, and as this share increases, a significant inequity in the cost burden is exemplified by the requirement that these competitive services cover only 8.8% of fixed and institutional overheads.

Despite claims by the USPS that reported competitive cost coverage in FY2019 exceeds this threshold, there remains an absence of explicit, unambiguous assurances that competitive services will carry the bulk of fixed and institutional overhead costs. At present, it is apparent that changes to the proposed price cap mechanism disregard the vast appropriate share imbalances, and further abet a process by which competitive product costs are recovered through the overpricing of USPS' monopoly services.

Furthermore as discussed in previous analyses, the price cap methodologies applicable to the USPS remain fully capable of supporting outcomes in which the agency can grow its earnings.[4] As directed by the PAEA, the price cap system is expected to be predictable, transparent and less administrative, and it sets as its first objective to "maximize incentives to reduce costs and increase efficiency."

These objectives in efficiency gains as well as its earnings are indelibly intertwined in calculating the USPS' Total factor productivity (TPF) – the ratio of total weighted volumes of business over total weighted factor inputs, such as labor, capital, transportation and services. So, as it applies to the USPS, any declines in mail volumes translate to direct responsibilities for the agency to adjust its inputs accordingly.

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[2] United States Postal Service, "FY2019 Annual Report to Congress," FY2019 Comprehensive Statement of Postal Operations, Page 12

[3] "U.S. Postal Service Delays New Mail Truck Choice to 2020," Trucks.com, September 3, 2019

[4] "Reply Comments of American Consumer Institute, Center for Citizen Research," Docket No. RM2017-3 Submitted to the Postal Regulatory Commission, March 30, 2018

Simply stating that volume declines are foundational elements to the case for acquiring upward pricing discretion is consequently counterintuitive to the codified guidelines in boosting efficiency across all conceivable avenues.

In summary, the Commission's revised plan for modifying the framework for rates and classes for Market Dominant products provides scant justification for any alterations to the Postal Service's price cap mechanism. The plan discourages maximizing the productivity of market dominant products, and also fully transforms rudimentary requirements to reduce costs and ensure performance quality into rewards for the USPS that invite further pricing distortions.

In lieu of an overhauled monopoly rate framework, the USPS should give the Commission a strategic plan that details the release of competitive financial data, hidden contracts, and information needed to determine efficacious competitive price increases as well as path to discontinue unsustainable non-mission services.

ACI appreciates the opportunities provided by the Commission within the RM2017-3 docket to share our organization's viewpoints on the vast challenges at hand for the U.S. Postal Service and the processes involved for implementing corrective measures.

Respectfully submitted,

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