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GUIDING PRINCIPLES

The Commission is committed to and operates by the principles of:

Openness
• Public participation

Integrity
• Fairness and impartiality
• Timely and rigorous analysis

Merit
• Commitment to excellence
• Collegiality and multi-disciplinary approaches

Adaptability
• Proactive response to the rapidly changing postal environment

MISSION STATEMENT

Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system.

VISION STATEMENT

To be an independent regulator respected for effectively engaging postal stakeholders to promote a robust universal mail system through objective, accurate, and timely regulatory analyses and decisions.

We will look to achieve our vision by:
• Taking a multi-disciplinary and integrated approach to work
• Monitoring the environment and anticipating changes to enhance agility
• Utilizing rigorous evaluative methods
• Optimizing stakeholder engagement through an appropriate and clearly-defined public involvement process
• Developing staff expertise to ensure that the Commission is a center for excellence in postal regulatory matters
• Ensuring that the Commission is an employer of choice
• Ensuring efficient stewardship of resources
Chairman’s Letter

JANUARY 2021

On behalf of the Postal Regulatory Commission, I am pleased to present our Annual Report to the President and Congress. This report details the key activities over the past year in the Commission’s area of regulatory oversight. It includes information required under the Postal Accountability and Enhancement Act of 2006 (PAEA) on the operations of the Commission, including the extent to which regulations are achieving the objectives outlined in the PAEA, and an annual estimate of the cost of the Universal Service Obligation (USO) and the value of the postal monopoly.

In Fiscal Year 2020, the Commission commemorated its 50th anniversary as the Nation’s Postal Service regulator. For half a century, the Commission has provided legal and economic oversight of the one agency that touches the lives of all Americans in every community nearly every day, at their homes and offices. Ever since Congress and President Nixon created it on August 12, 1970, the Commission has consistently conducted its work in an open and accessible way, with full transparency and an opportunity for robust input by the public. The agency’s operations on behalf of its fellow citizens foster a vital and efficient universal mail system.

Despite the devastation of the COVID-19 pandemic that has disrupted agency and business operations across the country since March, the Commission fully maintained the high quality, exceptional level of work that is essential to the success of the U.S. Postal Service and its customers. In fact, 100 percent of the agency’s professionals utilized the Commission’s enhanced technological capabilities to ensure the Commission’s critical work continued without disruption.

For example, the Commission completed its review of one of its most important dockets in decades — evaluation of the current system for regulating rates and classes for Market Dominant products — a PAEA mandate that requires the Commission to determine whether the law’s objectives are being achieved. If the Commission finds that the objectives are not being met, it has the authority to either propose rules that modify the system or adopt an alternative system to achieve the objectives. After a rigorous review period that extended past FY 2020 and included an advanced Notice of Proposed Rulemaking (NPR), a NPR, and a revised NPR, as well as several opportunities for the public and stakeholders to provide comments, the Commission issued its final rulemaking on November 30, 2020, adopting rules to modify the system for regulating rates and classes for Market Dominant products.

While the Commission has issued its final rule modifying the ratemaking system for Market Dominant products; unfortunately, the impact of the COVID-19 pandemic has further exacerbated the Postal Service’s financial condition. The Commission is aware that there is still much work to be done to place the country’s postal system on sound footing and has already begun the development of its third report under section 701 of the PAEA. Every five years, the Commission is required to issue a report to Congress and the President that reflects the Commission’s assessment of how well the PAEA is operating and is an opportunity to recommend legislation or other measures necessary to improve the effectiveness and efficiency of our Nation’s postal laws.

As the Commission was preparing this Annual Report for publication in January 2021, President Joseph R. Biden, Jr. designated me to serve as chairman of the Commission. The text of this document reflects the work of the Commission throughout FY 2020, and includes some undertakings completed after the end of the fiscal year. Commissioner Robert G. Taub served as chairman throughout that period, and we appreciate his leadership in that role. I am grateful for the opportunity to help the Commission build on its progress in 2021.

On behalf of my fellow commissioners and the entire hard-working agency staff, I extend a welcome to the new Congress and Administration. The Commission stands ready to begin a productive dialogue with each of you on how to ensure the integrity of a universal mail system for years to come.

Respectfully,

Michael Kubayanda

Michael M. Kubayanda

CHAIRMAN
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Despite the challenges of Fiscal Year (FY) 2020, the Postal Regulatory Commission has continued to produce quality work that supports its mission to ensure transparency and accountability of Postal Service operations and foster a vital and efficient universal mail system. The Commission’s work culminated in its completion of the statutorily mandated review of the system for regulating rates and classes for Market Dominant products. The Commission issued final rules adopting changes to the regulations governing the Market Dominant rate system that were targeted to address areas where the ratemaking system had failed to achieve the objectives set forth in 39 U.S.C. § 3622(b). Among other changes, the final rules:

- Modified the existing price cap to provide additional Market Dominant rate adjustment authority to permit the Postal Service to generate additional revenue to cover two costs outside of its control: retirement amortization payments and consequences of mail density declines
- Provided additional rate authority for non-compensatory mail classes of 2 percentage points per class per fiscal year that the Postal Service may use at its discretion
- Prohibited the Postal Service from reducing rates for non-compensatory products and required product-level rate increases for each non-compensatory product in a compensatory mail class by a minimum of 2 percentage points above the percentage increase for the class
- Implemented new requirements for workshare discounts to phase out two practices impeding pricing efficiency: workshare discounts that are set either substantially above or substantially below avoided costs
- Adopted additional reporting requirements to provide more transparency regarding operational efficiency and maintaining high-quality service standards, as well as facilitate the tracking of costs and monitoring of the Postal Service’s efforts to reduce costs

In addition, the Commission achieved the following significant accomplishments:

1. The Commission addressed longstanding issues regarding Inbound Letter Post, which had not covered the Postal Service’s costs since the Commission first analyzed volumes, costs, and revenues of the Postal Service’s international products in a 1999 report to Congress. The Commission reviewed and approved the Postal Service’s request to create a new product by transferring certain Inbound Letter Post mail from the Market Dominant to the Competitive product list, as well as the Postal Service’s proposed self-declared rates for the new product.

2. The Commission won an appeal filed with the Court of Appeals for the District of Columbia Circuit regarding the disclosure of data and analysis related to Inbound Letter Post.
3. The Commission reviewed and approved the Postal Service’s proposed rate changes for Market Dominant and Competitive products. Major cases include:

- Rate adjustments for each Market Dominant mail class (First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services)
- Rate adjustments for several domestic and international Competitive mail products
- Approval of rates for 267 Competitive negotiated service agreements (NSAs) between the Postal Service and mailers (210 domestic and 57 international)²

4. The Commission published four primary reports in FY 2020:

- Annual Report to the President and Congress (Annual Report), describing the Commission’s operations, accomplishments, and activities in FY 2019 as the regulator of the Postal Service
- Annual Compliance Determination (ACD) FY 2019, reviewing the Postal Service’s compliance with statutory pricing and service requirements
- Analysis of Postal Service Financial Results and 10-K Statement for the Fiscal Year 2019, providing an in-depth analysis of the Postal Service’s financial health
- Analysis of Postal Service FY 2019 Performance Report and FY 2020 Performance Plan, evaluating whether the Postal Service met its performance goals

5. The Commission presided over several other notable rulemaking proceedings in FY 2020. The Commission:

- Issued an ANPR seeking information from the public regarding what regulations the Commission may need to promulgate to carry out the requirements of 39 U.S.C. § 601, which relates to the letter monopoly. The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence, with some exceptions
- Adopted final rules revising procedural rules related to the issuance of Commission views on certain international mail matters pursuant to 39 U.S.C. § 407(c)(1)

6. The Commission explored important issues in three public inquiry dockets related to service performance, the value of the postal and mailbox monopolies, and city carrier costs.

7. The Commission also accomplished the following:

- Considered 16 proposals to change various accepted analytical principles
- Adjudicated two complaint cases, two market tests, and one post office closing appeal
- Processed more than 6,400 inquiries, questions, suggestions, and comments from the general public primarily involving undelivered, delayed, misdelivered, and missing mail
- Opened and reviewed 570 new dockets—an almost 25 percent increase over last year’s total—and processed 3691 documents
- Significantly enhanced technology capabilities allowing Commission staff to seamlessly adapt to a full-time telework environment while increasing cybersecurity and maintaining a productive work environment
The Commission is an independent establishment of the Executive Branch of the United States Government. It has exercised regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the PAEA of 2006.

The Commission is composed of five Commissioners, each of whom is appointed by the President, by and with the advice and consent of the Senate, for a term of six years. A Commissioner may continue to serve after the expiration of his or her term until a successor is confirmed, except that a Commissioner may not continue to serve for more than 1 year after the date on which his or her term would have otherwise expired. Not more than 3 of the Commissioners may be adherents of the same political party.
Commission Leadership

Robert G. Taub | CHAIRMAN

President Barack H. Obama designated Chairman Robert G. Taub as agency head on December 4, 2014. President Obama appointed him to both terms on the Commission following unanimous confirmations by the United States Senate in 2011 and 2016. His current term expires on October 14, 2022. Chairman Taub has 40 years of experience in public service at the local, state, and federal levels. When President Obama first appointed him as a commissioner in October 2011, Chairman Taub was the special assistant to Secretary of the Army John M. McHugh. As an Army senior executive, he was one of the principal civilian advisors to Secretary McHugh, helping him lead a workforce of more than 1.2 million people, and manage an annual budget exceeding $200 billion. Chairman Taub was awarded the Army’s Decoration for Distinguished Civilian Service. Before his appointment to the Army, Mr. Taub served as chief of staff to U.S. Representative John M. McHugh (R-NY) for the preceding decade. As chief of staff, he oversaw the day-to-day operations of Representative McHugh’s staff and offices in Washington, D.C. and Northern New York State. In a variety of leadership roles on the U.S. House Oversight & Government Reform Committee for 12 years, Mr. Taub also worked closely with Congressman McHugh on matters relating to the nation’s postal and delivery sector. He crafted Representative McHugh’s legislation for modernizing America’s postal laws for the first time since 1970, culminating in passage of the Postal Accountability and Enhancement Act in 2006. Mr. Taub also helped Representative McHugh conduct hearings and investigations into postal operations that ultimately led to the enactment of a dozen other postal laws.

Michael M. Kubayanda | VICE CHAIRMAN

Vice Chairman Michael M. Kubayanda was nominated to the Commission on June 6, 2018, by President Donald J. Trump for a term expiring November 22, 2020. His nomination was confirmed by the U.S. Senate on January 2, 2019. He was named vice chairman in August 2019 and served in that position through the end of 2020. Prior to joining the Commission, Michael Kubayanda served as a board member and privacy officer for a digital health startup. He previously worked with the Office of Inspector General (OIG) of the U.S. Postal Service, ending as director, government relations, a role in which he worked with OIG officials to support the work of inspectors general in data analytics. In the OIG’s research group, he oversaw research on technical issues and wrote reports addressing postal economics, intellectual property, and public-private partnerships, while serving as an advisor to colleagues on issues such as privacy, knowledge management, and innovation. Prior to his work with the OIG, he served on the staff of the House Committee on Oversight and Government Reform.
Mark Acton | COMMISSIONER

Commissioner Mark Acton was reappointed to the Commission by President Barack H. Obama on December 12, 2016, for a third term of continued public service extending until October 14, 2022. Commissioner Acton was confirmed by the United States Senate on December 10, 2016. Commissioner Acton was nominated by President Barack H. Obama on May 12, 2011, for a second term of office through October 14, 2016, and was confirmed by the United States Senate on September 26, 2011. President George W. Bush first nominated Mr. Acton as a postal rate commissioner on November 7, 2005, and he was confirmed by the Senate on August 3, 2006. Prior to that appointment, Mr. Acton served as special assistant to the chairman of the Postal Rate Commission and assisted in managing all aspects of agency operations.

Ann C. Fisher | COMMISSIONER

Ann C. Fisher was sworn in as a commissioner on August 8, 2019, for a first term, following her nomination by President Donald J. Trump and confirmation by the United States Senate. Prior to joining the Commission, Fisher spent more than a decade on Capitol Hill in various roles, including deputy staff director to former Chairman Susan Collins (R-ME) of the Senate Committee on Homeland Security and Governmental Affairs. She also served as an economist on the Senate Small Business Committee under former Chairman Larry Pressler (R-SD), and as a government relations manager at the U.S. Postal Service headquarters in Washington DC. Commissioner Fisher’s term expires October 14, 2024.

Ashley E. Poling | COMMISSIONER

Ashley Jay Elizabeth Poling was sworn in as commissioner for a first term on August 8, 2019, following her nomination by President Donald J. Trump and confirmation by the United States Senate. Prior to joining the Commission, Ms. Poling served as the director of governmental affairs and senior counsel to Ranking Member Gary C. Peters (D-MI) on the Senate Homeland Security and Governmental Affairs Committee where she advised Senator Peters on policy issues, negotiated with stakeholders to advance bipartisan legislation, and implemented strategies to advance Senator Peters’ governmental affairs priorities. Ms. Poling also served as senior policy counsel to Senator Heidi Heitkamp (D-ND) and as counsel to Senator Jon Tester (D-MT) on their respective Homeland Security and Governmental Affairs Subcommittees, where she focused on postal reform and federal workforce issues. Ms. Poling’s term expires on November 22, 2024.
Staff and Office Structure

Commission staff has expertise in law, economics, finance, statistics, and cost accounting. The Commission is organized into four operating offices:

- **Accountability and Compliance.** The Office of Accountability and Compliance is responsible for technical analysis and formulating policy recommendations for the Commission on domestic and international matters.

- **General Counsel.** The Office of the General Counsel ensures the Commission fulfills its statutory and regulatory obligations by providing legal guidance on matters involving the Commission's responsibilities.

- **Public Affairs and Government Relations.** The Office of Public Affairs and Government Relations facilitates prompt and responsive communications with the public, Congress, Federal agencies, the Postal Service, and the media.

- **Secretary and Administration.** The Office of the Secretary and Administration records the Commission's official actions; manages the Commission's records, human resources, budget and accounting, and information technology; and provides other support services.

The Commission maintains an independent Office of the Inspector General. It conducts, supervises, and coordinates audits and investigations relating to Commission programs and operations, and identifies and reports fraud and abuse in these programs and operations.

Figure II-1 displays the Commission's FY 2020 organizational structure.
Commission Strategic Plan

The Commission’s FY 2017-2022 Strategic Plan is the framework which guides the work of the Commission and is a fundamental beacon for the Commission’s efforts toward continuous improvement, efficiency, and effectiveness. The Plan outlines the agency’s vision to promote a robust universal mail system through objective, accurate, and timely regulatory analyses and decisions.

The Commission focuses its activities on the following four Strategic Goals:

- **Goal 1**: Deliver accurate and objective analyses and decisions to ensure transparency and accountability of the Postal Service

- **Goal 2**: Actively engage with Congress and stakeholders in support of a dynamic postal system

- **Goal 3**: Provide an optimal internal infrastructure to support management of priorities, workload, and emerging requirements

- **Goal 4**: Recruit, develop, and retain a diverse, high-performing workforce

The Commission regularly tracks individual department and agency progress in meeting the four goals. This Plan also steers our commitment of Commission resources, ensuring we utilize our small budget and personnel complement to achieve our Strategic Goals.

To assist in measuring the effectiveness of its Strategic Plan efforts, the Commission participates annually in the Federal Employee Viewpoint Survey (FEVS). Although the agency’s FY 2020 results have been delayed due to the impact of the COVID-19 pandemic, the agency’s FY 2019 response rate of 76 percent was higher than the government-wide average response rate of 43 percent. In addition to response rate, one prime indicator of agency success provided by the FEVS is the Employee Engagement Index, which ranks employees’ perceptions of the leadership within their agency, their supervisors, and the overall work experience. The Commission’s Employee Engagement Index — 78 percent — continues to be among the higher ratings across the government, and provides an assessment of where agencies fall within each index: HCAAF, Employee Engagement, Global Satisfaction, and the New IQ.

Compared to peers across the Federal government, Commission staff had a higher degree of satisfaction with their work and office environment: 78 percent versus the government-wide rating of 68 percent. The Commission uses FEVs to develop actionable plans to address issues raised in confidential feedback from employees.

Throughout FY 2020, Chairman Taub met with office heads to review progress, accomplishments, and challenges related to each Strategic Goal and performance metric. Key discussion points included the following:

- Ongoing prioritization of workload
- Ongoing updates on the Commission’s 10-year rulemaking docket, including assessment of adequate resources to support efforts
- Development of media, congressional, and public outreach plans for key Commission notices
- Review of Commission responses to congressional inquiries
- Progress updates regarding efforts to increase cybersecurity for IT systems
- Commission efforts and initiatives to meet Equal Employment Opportunity target employee recruitment goals
- Timeliness of Commission response to service-related consumer inquiries
- Ongoing efforts between Commission and Postal Service staff to streamline the filing process for documents and reports and ensure the timeliness of Postal Service reporting
- Proposal to revise the Commission’s Practice and Procedure rules to simplify access and participation in Commission rulemakings
Robust discussion regarding Commission employee responses to certain FEVS questions specifically linked to the Strategic Plan. Noteworthy positive or negative changes in employee feedback were carefully assessed by the Chairman and senior management.

- Continued efforts to develop an improved records and docket management capability, including a modernized docketing system
- Proposed schedule for development of updated Commission Human Capital Plan
- Joint department collaboration in handling of FOIA requests, internal policy development, Commission ethics program, employment, and hiring matters

Through these focused discussions, the Commission made significant progress in achieving the goals set forth in its Strategic Plan over the course of the year. The Commission applies its Strategic Plan to prioritize and enhance the effectiveness of operations by aligning its limited resources to accomplish its mission and meet its statutory responsibilities and stated Strategic Goals.

Strategic Goal 1 focuses on delivering accurate and objective analyses and decisions to ensure compliance, transparency, and accountability of the Postal Service. These principles are the bedrock of the Commission's work, and it conducts thorough and accurate analysis of Postal Service reporting in order to ensure that the Postal Service is compliant with the law and is held accountable for non-compliance. In addition to its extensive regulatory work as detailed in Chapter III, the Commission's major accomplishment under Strategic Goal 1 includes the publication of final rules adopting changes to the regulations governing the Market Dominant Rate System. The Commission's Strategic Objective 1.3 tasked the Commission to “[r]esponsibly, transparently, and efficiently lead the review of the existing statutory system for regulating rates and classes for Market Dominant products, as well as consider and, if necessary, implement modifications or an alternative system.” In satisfaction of Objective 1.3, the Commission concluded its extensive statutory review of the Market Dominant Rate System and published final rules setting forth regulatory changes targeted to address identified deficiencies of the ratemaking system.

Strategic Goal 2 focuses on active engagement with Congress and stakeholders in support of a dynamic postal system. The Commission accomplishes this goal by clearly communicating complex analyses and decisions to address the needs of diverse stakeholders. As set forth in Chapter V, the Commission's Office of Public Affairs and Government Relations (PAGR) assists the public by handling thousands of consumer comments and inquiries related to a host of postal issues. In addition to this work, due to the impact of the COVID-19 pandemic on Postal Service operations, PAGR also conducted increased communication and active engagement regarding the postal system with the U.S. Congress, the Administration, the Postal Service, other government agencies, and the media.

Strategic Goal 3 focuses on providing an optimal internal infrastructure, including IT infrastructure, administrative infrastructure, and physical infrastructure, to support management of priorities, workload, and emerging requirements. The Commission is able to fulfill its mission and provide effective oversight of the Postal Service when it operates in an efficient, responsive, and transparent matter. In accordance with Strategic Goal 3, the Commission improved its IT infrastructure to support its staff while in a maximum telework status due to the COVID-19 pandemic, including procuring more secure government equipment to replace the use of personal equipment for accessing Commission networks. The Commission's focus on security included hiring its first cybersecurity manager and conducting a security assessment. By focusing a portion of its limited resources on infrastructure needs under this goal, the Commission was able to seamlessly transition its staff to maximum telework and...
support its achievement of Strategic Goals 1 and 2 to ensure the continuity of the Commission’s mission in light of a global pandemic.

Strategic Goal 4 is a cross-cutting goal that focuses on the recruitment, development, and retention of a diverse, high-performing workforce. As payroll is 80 percent of the Commission’s budget, this heightens the significance which the Commission attaches to this goal. Loss of experienced and trained staff is a risk area and threatens the work of the Commission given the unique postal expertise required to carry out its mission. In the past fiscal year, the Commission virtually hired and onboarded eight full-time employees to fill mission-critical vacancies. Four of these new employees work in the Office of Accountability and Compliance and Office of the General Counsel which separately supports Strategic Goal 1.

The Commission's largest challenge in fully achieving its Strategic Plan goals remains its lack of sufficient funds. As the regulator of the Postal Service, the Commission needs the ability to remain flexible and nimble to adjust its operations to match the regulatory oversight requirements of the Postal Service in the fast-paced and evolving delivery sector. Given the nature of the Commission’s work, responding to changes in the postal sector environment, while ensuring its statutorily-mandated responsibilities are conducted in an efficient and effective manner, even small cuts to the Commission’s budget significantly impact its ability to meet its Strategic Goals. Despite these budgetary challenges, the Commission was able to efficiently and effectively make significant progress in achieving its Strategic Goals and saw major accomplishments related to each Strategic Goal in 2020.

The Commission's Strategic Plan, in its entirety, can be viewed or downloaded at www.prc.gov.
The Postal Accountability and Enhancement Act (PAEA)\(^3\) requires the Commission to submit an Annual Report to the President and the Congress (Annual Report) that includes an analysis “concerning the operations of the Commission under [title 39], including the extent to which regulations are achieving the objectives under sections 3622 and 3633” of title 39 of the United States Code (U.S.C.).\(^4\) These sections contain laws related to Market Dominant and Competitive products, respectively. Postal Service products are characterized as either Market Dominant or Competitive.\(^5\) Market Dominant products are those products over which the Postal Service “exercises sufficient market power that it can effectively set the price[s] of such product[s] substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.”\(^6\) Competitive products consist of all other products.\(^7\)

The Annual Report must analyze the extent to which regulations are achieving the objectives under 39 U.S.C. § 3622, which relate to Market Dominant products. The modern system for regulating rates and classes for Market Dominant products (Market Dominant Rate System) must be designed to achieve the following objectives in section 3622(b):

1. Maximize incentives to reduce costs and increase efficiency
2. Create predictability and stability in rates
4. Allow the Postal Service pricing flexibility
5. Assure adequate revenues, including retained earnings, to maintain financial stability
6. Reduce the administrative burden and increase the transparency of the ratemaking process
7. Enhance mail security and deter terrorism
8. Establish and maintain a just and reasonable schedule for rates and classifications without prohibiting the Postal Service from making changes of unequal magnitude within, between, or among classes of mail
9. Allocate the total institutional costs of the Postal Service appropriately between Market Dominant and Competitive products

The Commission established regulations governing the Market Dominant Rate System in 2007 shortly after the PAEA was enacted. In FY 2017, the Commission began its review of the Market Dominant Rate System to determine if it was achieving the objectives established by Congress in 39 U.S.C. § 3622(b), taking into account the factors of 39 U.S.C. § 3622(c). The Commission’s review is discussed below under the “Statutory Review of Market Dominant Rate System” section.

The Annual Report must also analyze the extent to which regulations are achieving the objectives under 39 U.S.C. § 3633 relating to Competitive products. The Commission’s regulations in 39 C.F.R. part 3035 support the requirements of section 3633, which are discussed below under the “Rate Adjustments — Competitive Products” section. This chapter also describes the Commission’s major orders, reports, and proceedings during FY 2020.

Rulemakings Amending Commission Regulations

Statutory Review of Market Dominant Rate System

When enacting the PAEA, Congress intended that the Market Dominant Rate System achieve the nine objectives in 39 U.S.C. § 3622(b). Congress also required that the Commission review the Market Dominant Rate System 10 years after the PAEA was enacted “to determine if the system is achieving the objectives in [39 U.S.C. § 3622] (b), taking into account the factors in [39 U.S.C. § 3622] (c).” In accordance with this statutory mandate, the Commission established Docket No. RM2017-3 and issued an Advanced Notice of Proposed Rulemaking (ANPR) to establish a framework for its review and provide notice and an opportunity for public comments.

On December 1, 2017, the Commission issued Order No. 4257 containing its findings and determination of its review of the Market Dominant Rate System.

In Order No. 4257, the Commission identified three principal areas of the Market Dominant Rate System that encapsulate the nine objectives: (1) the structure of the ratemaking system, (2) the Postal Service’s financial health, and (3) service. The Commission evaluated each principal area to determine whether the PAEA’s goals were achieved during the PAEA era. The Commission found that while the system achieved some of the goals of these principal areas, the overall system had not achieved the objectives taking into account the factors of the PAEA.

In its review of the structure of the Market Dominant Rate System, the Commission found that with respect to pricing, the system did not result in increased pricing efficiency. In its analysis of the financial health of the Postal Service, the Commission determined that “financial stability, including retained earnings, has not been maintained for the Postal Service in the medium and long-term time frames and that cost reductions and operational efficiency gains have not been maximized.” The Commission also found that “the system did not maintain reasonable rates because products and classes threatened the financial integrity of the Postal Service by failing to cover their attributable costs.” In its review of service, the Commission determined that the system did not effectively encourage the maintenance of high quality service standards.
In accordance with 39 U.S.C. § 3622(d)(3), if the Commission determines that the Market Dominant Rate System has not achieved the objectives, taking into account the factors, of the PAEA, the Commission may, by regulation, make modifications or adopt an alternative system as necessary to achieve the objectives. As a result of its findings and determination in Order No. 4257, the Commission concurrently issued a Notice of Proposed Rulemaking (NPR) that included proposed changes to the Market Dominant Rate System.\textsuperscript{21}

The NPR proposed changes designed to address key issues with the Market Dominant Rate System by providing the Postal Service additional pricing authority that complemented rather than replaced the price cap.\textsuperscript{22} The proposed rules provided the Postal Service supplemental rate authority to generate additional revenue through an additional 2 percentage points of rate authority per class of mail per calendar year, as well as additional performance-based rate authority upon the Postal Service meeting standards related to operational efficiency and service standards.\textsuperscript{23} The rules also expanded pricing authority for non-compensatory classes and prohibited reducing rates for non-compensatory products.\textsuperscript{24} To increase pricing efficiency, the proposed rules established bands—ranges with upper and lower limits—for workshare discount passthroughs.\textsuperscript{25} The NPR also proposed other changes to the rate adjustment process that increased visibility into planned rate adjustments.\textsuperscript{26}

On December 5, 2019, the Commission issued a revised NPR to reflect comments received on the initial NPR.\textsuperscript{27} The revised rules were aimed at improving and strengthening the initial proposal.\textsuperscript{28} After considering comments received on the revised NPR, the Commission issued final rules adopting changes to the regulations governing the Market Dominant Rate System.\textsuperscript{29} The final rules set forth regulatory changes targeted to address the identified areas where the ratemaking system has failed to achieve the objectives set forth in 39 U.S.C. § 3622(b).

To address obstacles to the Postal Service’s ability to maintain financial health and target primary drivers of net losses, the final rules implement two mechanisms designed to provide additional revenue for costs outside the Postal Service’s control. The first mechanism, designed to address consequences of mail density declines, modifies the existing price cap to provide additional Market Dominant rate adjustment authority equal to the density-driven portion of increases in average cost-per-piece, as calculated under the Commission’s formula.\textsuperscript{30} The second mechanism, designed to address the Postal Service’s retirement amortization payments, modifies the existing price cap to provide additional Market Dominant rate adjustment authority equal to the percentage by which total revenue (for both Market Dominant and Competitive products) would need to increase to provide sufficient revenue for the Postal Service to meet its required retirement obligation payments, as calculated under the Commission’s formula.\textsuperscript{31} The retirement-based rate adjustment authority will be phased in over 5 years.\textsuperscript{32}

The final rules withdraw the performance-based rate authority proposed in the initial and revised NPRs in response to commenter concerns.\textsuperscript{33} The Commission intends to open a separate rulemaking to further study potential modifications to the ratemaking system that link financial incentives and/or consequences to efficiency gains, cost reductions, and the maintenance of service standards.\textsuperscript{34} For purposes of transparency, the final rules adopt two of the proposed reporting requirements related to the proposed performance-based rate authority.\textsuperscript{35}

The Commission adopts final rules relating to non-compensatory mail classes and products to address the failure of the Market Dominant Rate System to maintain reasonable rates and promote pricing efficiency. For non-compensatory mail classes, the final rules provide an additional rate authority of 2
percentage points per class and per fiscal year the Postal Service may use, with an aim to narrow the cost coverage gap of those classes over time. This additional rate authority is optional. For non-compensatory products, the Postal Service is restricted from reducing rates for those products and will be required to enact product-level rate increases for each non-compensatory product in a compensatory class by a minimum of 2 percentage points above the percentage increase for the class. These restrictions are designed to stop the trend of declining cost coverage for these products and move cost coverage toward 100 percent.

To improve pricing efficiency, the final rules regarding workshare discounts are intended to phase out two practices impeding pricing efficiency: workshare discounts that are set either substantially below avoided costs or substantially above avoided costs. The Postal Service is prohibited from changing workshare discounts set equal to avoided costs; reducing workshare discounts set below avoided costs; and increasing workshare discounts set above avoided costs. The Postal Service may propose to set a workshare discount below or above avoided costs only under certain circumstances. The Postal Service may also request a waiver in advance of a rate adjustment filing that, if granted by the Commission, would exempt a workshare discount from some of the requirements.

The final rules also include reporting requirements intended to facilitate the tracking of costs and monitoring of the Postal Service’s efforts to reduce costs. They require the Postal Service to provide information consisting of three separate components: (1) a consolidated cost analysis; (2) detailed information regarding planned and active large-scale cost-reduction initiatives; and (3) summary information pertaining to approved Decision Analysis
Reports, which are internal Postal Service documents used to justify and obtain approval for certain proposed capital spending projects.\textsuperscript{45} To increase transparency and reduce administrative burden, the final rules implement procedural improvements to the ratemaking process related to planned rates of general applicability.\textsuperscript{46} Among other changes, they require the Postal Service to update the schedule for regular and predictable rate adjustments annually and provide certain information designed to increase transparency for mailers regarding the Postal Service’s planned rate changes.\textsuperscript{47} They also extend the minimum notice period for rate adjustment filings from 45 to 90 days and discontinue the Commission’s practice of addressing the objectives and factors of 39 U.S.C. § 3622(b) and (c) in individual rate adjustment proceedings.\textsuperscript{48} Finally, the final rules provide for a holistic review of the effects of the Commission’s rule changes after 5 years.\textsuperscript{49} The Commission retains the flexibility to review and adjust certain components of the system sooner than 5 years if necessary.\textsuperscript{50} Taken together, the modifications adopted in the final rules are designed to remedy the deficiencies in the existing Market Dominant Rate System identified in Order No. 4257.

Revised Rules of Practice and Procedure

On September 13, 2019, the Commission issued an NPR to reorganize its regulations and to revise its rules of practice.\textsuperscript{51} The proposed revisions were designed to make the Commission’s regulations more user-friendly by organizing them under six new subchapter headings.\textsuperscript{52} Proposed subchapter A contained rules describing the Commission and its offices as well as employee standards of conduct.\textsuperscript{53} Proposed subchapter B described rules relating to the Privacy Act, public records and the Freedom of Information Act, and public attendance at Commission meetings.\textsuperscript{54} Proposed subchapter C contained revised rules of practice applicable to all Commission proceedings.\textsuperscript{55} It proposed generally applicable rules of practice and procedure for docketed matters before the Commission, rules governing non-public materials provided to the Commission, rules prohibiting certain ex parte communications, and procedures for compelling the Postal Service to provide information.\textsuperscript{56}

Proposed subchapter C also established procedural frameworks for the two main types of Commission proceedings — notice and comment proceedings and proceedings with hearings on the record.\textsuperscript{57} The separate framework for notice and comment proceedings, distinct from the framework for hearings on the record, was established to eliminate confusion regarding the procedures that apply in notice and comment proceedings and to reflect the fact that, since the enactment of the PAEA in 2006, the Commission has conducted most of its proceedings through notice and comment.

The rules in proposed subchapter D provided additional procedures for specific types of Commission proceedings: Postal Service requests for changes in the nature of postal services, post office closing appeals, complaints, rate or service inquiries, complaints alleging violations of 39 U.S.C. § 404a, and procedures related to Commission views submitted to the Secretary of State.\textsuperscript{58} Proposed subchapter E contained regulations governing Market Dominant and Competitive products, product lists, and market tests.\textsuperscript{59} Proposed subchapter F contained rules for periodic reporting, service performance and customer satisfaction reporting, and accounting practices and tax rules for Competitive products.\textsuperscript{60}

In response to comments received, the Commission adopted the proposed reorganization and revisions with limited modifications.\textsuperscript{61} The revised rules became effective on April 20, 2020.\textsuperscript{62}
Rate Incentives for Market Dominant Products

On February 14, 2020, the Commission issued an NPR proposing amendments to the Commission’s regulations concerning rate incentives for Market Dominant products appearing in 39 C.F.R. part 3030. When adjusting Market Dominant rates as part of a rate adjustment proceeding, the Commission’s rules permit the Postal Service to include rate incentives it plans to offer in the percentage change in rates calculation, as long as the rate incentives meet certain requirements. One requirement is that rate incentives must be rates of general applicability, which means the rates are “applicable to all mail meeting standards established by the Mail Classification Schedule, the Domestic Mail Manual, and the International Mail Manual.”

The Commission sought to clarify its rules by proposing three changes. First, the proposed rules would revise the regulation defining “rate of general applicability” for purposes of Market Dominant rate adjustment proceedings to clarify that rates of general applicability cannot be based on mailer-specific data such as historical mailer volume. Second, the proposed rules would add an additional criterion for a rate incentive to be eligible for inclusion in a percentage change in rates calculation: the rate incentive must be made available to all mailers equally on the same terms and conditions. Third, the proposed rules would require that notices of rate adjustment include specific information concerning Market Dominant rate incentives that the Postal Service wishes to have included in a percentage change in rates calculation.

After considering comments received, the Commission issued Order No. 5510 adopting final rules regarding rate incentives for Market Dominant products on May 15, 2020. On June 15, 2020, the Postal Service filed a petition for review appealing this order to the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). The Postal Service alleged that Order No. 5510 “relied on a new factual basis that was not revealed in its proposed rule, thereby failing to allow for meaningful and informed comment.”

On August 26, 2020, the Commission issued a notice of intent to reconsider the final rules. The Commission maintained that the proposed rules did provide adequate notice. However, it deemed it prudent to allow the Postal Service to comment on any aspect of the proposed rules the Postal Service believed it did not have the opportunity to comment on previously. The Commission stated it would reconsider its findings in light of any such comments. To that end, the Commission stated that it intends to issue a new NPR and to reconsider Order No. 5510 to ensure that the Postal Service and all other interested persons have the
opportunity to comment fully on the proposed rules. The Commission noted that it does not intend to enforce Order No. 5510 during the reconsideration period.

On September 11, 2020, the Postal Service and the Commission filed with the D.C. Circuit a joint motion to dismiss the Postal Service’s petition for review and vacate Order No. 5510.

Letter Monopoly Exceptions

On February 27, 2020, the Commission issued an ANPR seeking information from the public about what regulations the Commission may need to promulgate to carry out the requirements of 39 U.S.C. § 601, which relates to the letter monopoly. The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence, with some exceptions. These exceptions are codified in 39 U.S.C. § 601, which specifies instances when letters are not subject to the letter monopoly.

39 U.S.C. § 601(c) directs the Commission to promulgate “[a]ny regulations necessary to carry out [section 601] … .” The Commission issued this ANPR to explore potential options for issuing these regulations and to identify issues that may be considered. Two Chairman’s Information Requests (CHIRs) were issued and 11 comments were received. The Commission is currently considering comments received.

Procedures Related to Commission Views

On December 17, 2019, the Commission issued an NPR proposing revisions to its procedural rules related to the issuance of Commission views on certain international mail matters pursuant to 39 U.S.C. § 407(c)(1). Under section 407(c)(1), before the Secretary of State concludes any treaty, convention, or amendment establishing a Market Dominant rate or classification, it must request the Commission’s views “on whether such rate or classification is consistent with the standards and criteria established by the Commission under [39 U.S.C. §] 3622.” Procedures for providing Commission views to the Secretary of State are codified in 39 C.F.R. part 3025. The NPR proposed minor improvements to these rules to increase transparency and accountability of the process for providing Commission views, as well as enhance the accessibility of relevant proposals, Commission views, and other related documents. After considering comments received, which supported the proposed changes, the Commission adopted these revisions to 39 C.F.R. part 3025.

Updates to Product Lists

The Commission maintains product lists containing the names of the Market Dominant and Competitive products the Postal Service is currently offering. The PAEA and the Commission’s rules require the Commission to update the product lists to reflect changes made, including adding new products, removing products, and transferring products between the Market Dominant and Competitive product lists. Updates to the product lists must be published in the Federal Register.

On April 16, 2020, the Commission established Docket No. RM2020-8 as the docket where future Notices of Update to Product Lists will be posted. These updates will also be published in the Federal Register as a direct final rulemaking that amends the Code of Federal Regulations (C.F.R.). The product lists are published in
For each Notice of Update to Product Lists, the Commission will consider any adverse comments received related to each notice. If no significant adverse comments are received, the product list updates will become effective 30 days after the date they are published in the *Federal Register* without further action. The product lists are updated quarterly in the *Federal Register* as well as on the Commission's website.

Amendments to Freedom of Information Act Rules

On September 27, 2019, the Commission issued a proposed direct final rule to transfer responsibility for processing requests under the Freedom of Information Act (FOIA), 5 U.S.C. § 552, *et seq.*, from its Office of Secretary & Administration to its Office of General Counsel. The Commission based the proposal on its determination that these requests can be processed most efficiently within the Office of General Counsel. The Commission invited interested persons to comment on its proposal no later than 30 days from the date of its publication in the *Federal Register*. Because no adverse comments were received, the proposed changes became effective on November 18, 2019.

Annual Reports

Besides the Annual Report to Congress, the Commission issues three other reports each year that analyze information from the Postal Service’s *Annual Compliance Report* (ACR). The ACR analyzes costs, revenues, rates, and quality of service for Market Dominant and Competitive products. The ACR also includes information about mail volumes, service performance, and customer satisfaction for Market Dominant products, as well as information on workshare discounts and market tests. The PAEA requires the Postal Service to prepare and submit the ACR to the Commission within 90 days after the fiscal year ends on September 30.

Each year, the Commission analyzes the ACR and issues three related reports. The ACD assesses the Postal Service’s compliance with statutory pricing and service requirements. The Financial Analysis Report analyzes the Postal Service’s overall financial position. The Analysis of Postal Service Performance Goals and Performance Plan evaluates whether the Postal Service met its performance goals and makes related recommendations. In FY 2020, each report was issued in Docket No. ACR2019 and is described below.

Annual Compliance Determination

The ACD is an important tool for enhancing transparency and accountability by determining whether the Postal Service complied with statutory pricing and service requirements in a given fiscal year. After receiving the ACR, the Commission has 90 days to solicit public comment and determine whether: (1) any rates or fees in effect during the fiscal year did not comply with applicable laws, and (2) the Postal Service met its service standards in effect during the fiscal year. The Commission publishes its analysis of the ACR in the ACD.

The Commission issued the FY 2019 ACD on March 25, 2020 and made several principal findings and directives. First, the Commission evaluated Market Dominant products for
compliance with three statutory pricing requirements: the price cap, workshare discounts, and preferred rates.\textsuperscript{104} There were no issues with the price cap and preferred rates.\textsuperscript{105} The Commission identified compliance issues with 12 workshare discounts and found that 1 workshare discount did not comply with 39 U.S.C. § 3622(e).\textsuperscript{106} The Commission directed the Postal Service to either align this workshare discount with its avoided cost in the next Market Dominant rate adjustment or provide support for an applicable statutory exception.\textsuperscript{107}

Second, the Commission identified eight non-compensatory Market Dominant products that did not generate sufficient revenue to cover their attributable costs in FY 2019: (1) Periodicals In-County, (2) Periodicals Outside County, (3) USPS Marketing Mail Flats, (4) USPS Marketing Mail Parcels, (5) USPS Marketing Mail Carrier Route, (6) Inbound Letter Post, (7) Media Mail/Library Mail, and (8) Stamp Fulfillment Services.\textsuperscript{108} The Commission issued findings, directives, and/or recommendations for each non-compensatory product. For Periodicals, the Commission found that the Postal Service’s FY 2019 Periodicals Pricing Report meaningfully responded to the Commission’s previous directive.\textsuperscript{109} It directed the Postal Service to provide an updated version of the Periodicals Pricing Report in the FY 2020 ACR.\textsuperscript{110} The Commission found that USPS Marketing Mail Flats had its worst cost coverage since this product was introduced in FY 2007 and that the Postal Service had failed to improve its cost coverage or identify a timeline for phasing out the subsidy it receives.\textsuperscript{111} The Commission directed the Postal Service to increase rates for both USPS Marketing Mail Flats and USPS Marketing Mail Parcels in the next Market Dominant rate adjustment by at least 2 percentage points above the class average.\textsuperscript{112} The Commission strongly recommended that the Postal Service propose the same increase for USPS Marketing Mail Carrier Route.\textsuperscript{113} If it elected not
to, the Commission directed the Postal Service to provide an estimate of the impact of the proposed rate increases for this product on the contribution of the USPS Marketing Mail class and the USPS Marketing Mail Carrier Route product.\textsuperscript{114}

For Inbound Letter Post, the Commission made several recommendations to the Postal Service: (1) negotiate agreements containing rates that are more compensatory than default terminal dues, (2) undertake focused initiatives to reduce costs without compromising service, and (3) work with the Department of State to propose compensatory terminal dues to the Universal Postal Union (UPU).\textsuperscript{115} For Media Mail/Library Mail, the Commission found that the Postal Service’s approach to improve cost coverage through above-average price increases was appropriate, but historically inadequate.\textsuperscript{116} The Commission directed the Postal Service to submit a plan describing how it will increase the cost coverage of this product.\textsuperscript{117} For Stamp Fulfillment Services, the Commission urged the Postal Service to improve cost coverage and explain its rationale if it proposed a below-average price increase in the next Market Dominant rate adjustment.\textsuperscript{118}

Third, in the ACD, the Commission evaluated Competitive products for compliance with 39 U.S.C. § 3633(a) in FY 2019. The Commission found that Competitive products complied with sections 3633(a)(1) and (3) because Market Dominant products did not subsidize revenues for Competitive products, and Competitive products collectively covered an appropriate share of the Postal Service’s institutional costs.\textsuperscript{119} The Commission also determined that revenues for six Competitive products did not cover their attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2).\textsuperscript{120} The Commission directed the Postal Service to take corrective action for these products, such as terminating or renegotiating non-compensatory agreements, reviewing rate and revenue discrepancies, and providing more transparency on costing issues.\textsuperscript{121} Fourth, the Commission evaluated service performance for each Market Dominant product by comparing the percentage of mailpieces that achieve the stated service standard with targets set by the Postal Service.\textsuperscript{122} The Commission found that most products failed to meet their annual service performance targets in FY 2019.\textsuperscript{123} It noted that because the Postal Service began using a new internal service performance measurement (SPM) system in FY 2019, service performance results for FY 2019 are not directly comparable to results for previous fiscal years.\textsuperscript{124} For First-Class Mail Single-Piece Letters/Postcards, the Commission determined that the Postal Service did not meet its service performance targets for this product, along with all other First-Class Mail products, for the fifth consecutive year.\textsuperscript{125} However, the Commission also found that “[t]he Postal Service has made progress in developing a quantitative analysis linking its root cause assessments with the impact on service performance results for this product and other First-Class Mail and USPS Marketing Mail products.”\textsuperscript{126} It directed the Postal Service to continue reporting specific information developed from its First-Class Mail metrics and provide more transparency about the progress and effects of its existing strategies for improving multi-year national service performance.\textsuperscript{127}

Fifth, the Commission examined flats cost and service issues by analyzing flats financial performance, flats service performance, and pinch points impacting flats operational performance.\textsuperscript{128} It found that unit costs and contribution losses have continued to grow, and no flats product met their service performance target in FY 2019.\textsuperscript{129} The Commission noted that annual reporting requirements for flats were implemented in FY 2019, which leveraged internal data the Postal Service collected to improve transparency and accountability.\textsuperscript{130} The Commission made several recommendations to develop specific plans and goals to improve both cost issues and service performance for flats in FY 2020.\textsuperscript{131}
Financial Analysis

On May 7, 2020, the Commission issued its Financial Analysis of the United States Postal Service Financial Results and 10-K Statement for FY 2019. The report provided comprehensive analysis of the Postal Service’s financial status primarily using information reported in its FY 2019 Form 10-K, including comparisons with FY 2018 results and its FY 2019 Integrated Financial Plan (Financial Plan). The Commission’s analysis concluded that the Postal Service remains on an unsustainable financial path. It found that in FY 2019, the Postal Service’s total net loss was $8.8 billion, which was a decline of $4.9 billion compared to FY 2018. The net loss from operations of $3.2 billion, an increase of 53 percent over FY 2018 due to higher operating expenses, represented a $1.1 billion decline in profitability. Net operating expenses were $1.6 billion higher than in FY 2018, which were primarily driven by increases in compensation and benefits as well as transportation costs. In FY 2019, 70.3 percent of the Postal Service’s total costs consisted of compensation and benefits expenses, and workhours have continued to increase annually since FY 2015.

The Commission found that the Postal Service has not had a profitable year in the last decade. The Postal Service recorded a $71.5 billion net deficit primarily caused by several years of net operating losses that started in FY 2007. These continued losses have adversely affected the Postal Service’s financial position, creating a substantial gap between the Postal Service’s assets and liabilities. The gap between current assets and current liabilities has increased significantly since FY 2010. If current assets are not sufficient to meet short-term liabilities, the Postal Service could have issues paying its creditors in the short term.

The Postal Service had $8.8 billion in cash as of September 30, 2019. This represented approximately 58 days of liquidity. The Postal Service’s cash reserves covered less than 2 months of cash and capital expenses excluding unpaid retirement plan expenses. The Postal Service is largely a cash business with minimal trade receivables and payables (other than the employee related liabilities), which increases the importance of cash reserves to mitigate unforeseen risks.

First-Class Mail, USPS Marketing Mail, and Shipping and Packages represented 93 percent of the revenue from mail and services. Rate increases based on the price cap were not sufficient to offset revenue lost from the decline in Market Dominant mail volumes. Total revenue from Market Dominant products decreased by 1.6 percent, and several Market Dominant products did not generate sufficient revenue to cover attributable costs.

Analysis of Performance Goals

Each year, the Commission must evaluate whether the Postal Service met the performance goals established in the Postal Service’s annual performance report and performance plan. The Commission may also provide the Postal Service with recommendations related to protecting or promoting public policy objectives in title 39. On June 1, 2020, the Commission issued a detailed analysis of the Postal Service’s progress during FY 2019 toward its four performance goals: (1) High-Quality Service, (2) Excellent Customer Experiences, (3) Safe Workplace and Engaged Workforce, and (4) Financial Health.

The Commission’s review found that the FY 2020 Plan and FY 2019 Report retained many improvements implemented in past annual performance plans and annual performance reports. The FY 2020 Plan complied with legal requirements in 39 U.S.C. § 2803 and the Commission’s directive to identify program activities and relate them to the performance goals. However, while the FY 2019 Report met most requirements of 39 U.S.C. § 2804, it did not provide comparable results from the past three fiscal years or the required explanations for the High-Quality Service and Excellent Customer Experiences performance goals as required by 39 U.S.C. § 2804(c).

The Commission also evaluated whether the Postal Service met each performance goal, finding that the Postal Service either did not meet or only partially met each performance goal in FY 2019. The Commission provided related observations and recommendations for each performance goal to help the Postal Service meet the performance goal and better assess its performance in future years.

**Rate Adjustments**

One of the Commission’s major statutory responsibilities is to ensure that rate adjustments for Market Dominant and Competitive products comply with applicable statutory and regulatory requirements. There are two types of postal rates: (1) rates of general applicability, and (2) rates not of general applicability. Rates of general applicability are available to all mailers equally on the same terms and conditions. Examples include Forever Stamps and Priority Mail Flat Rate boxes.

Rates not of general applicability are offered by the Postal Service to specific mailers through negotiated service agreements (NSAs). NSAs are written contracts between the Postal Service and a mailer that are effective for a defined period of time. They provide for customer-specific rates, fees, or terms of service according to the terms and conditions of the contract.

In FY 2020, the Commission reviewed the Postal Service’s proposed changes to rates of general applicability and rates not of general applicability for both Market Dominant and Competitive products. Each is discussed below.
Market Dominant Products
RATES OF GENERAL APPLICABILITY

The PAEA allows the Postal Service to change rates of general applicability for Market Dominant products as long as the rate adjustments meet certain statutory and regulatory requirements:

- Rate adjustments for each Market Dominant mail class must not exceed the price cap, an annual limitation based on the Consumer Price Index for All Urban Consumers\textsuperscript{164}
- Workshare discounts must not exceed the Postal Service’s avoided costs unless a statutory exception applies\textsuperscript{165}
- Preferred rates must be set consistent with statutory requirements\textsuperscript{166}

The rate adjustments must also comply with the Commission’s rules in 39 C.F.R. part 3030.

On October 9, 2019, the Postal Service filed notice of proposed changes in rates of general applicability and related MCS changes for Market Dominant products.\textsuperscript{167} The Commission reviewed the proposed rate adjustments for compliance with the statutory and regulatory requirements described above. After analyzing the filings and considering the comments received, the Commission issued an order approving the proposed rate adjustments and related MCS changes for USPS Marketing Mail, Periodicals, Package Services, and Special Services, finding that they complied with the requirements of title 39, the Commission’s regulations, and other applicable laws.\textsuperscript{168}

The Postal Service’s proposed rate adjustments for First-Class Mail were addressed in separate orders. On November 13, 2019, the Commission issued an order remanding the rate adjustments initially proposed for First-Class Mail, finding that the proposed rates exceeded the price cap limitation specified by 39 U.S.C. § 3622(d).\textsuperscript{169} It directed the Postal Service to file an amended notice of rate adjustment for First-Class Mail with modified rates that would comply with applicable legal requirements, which the Postal Service filed on November 20, 2019.\textsuperscript{170}

After analyzing the filings and considering the comments received, the Commission issued Order No. 5340 approving the amended rate adjustments proposed for First-Class Mail, finding that they complied with the requirements of title 39.\textsuperscript{171} The Commission reserved final disposition of issues not addressed in Order No. 5340.\textsuperscript{172} On December 20, 2019, the Commission issued a separate order addressing these issues and found that the amended rate adjustments and related MCS changes for First-Class Mail were consistent with applicable laws and regulations.\textsuperscript{173}

On June 1, 2020, the Postal Service filed another notice of rate adjustment proposing
a new rate incentive that would effectively reduce the rate for Every Door Direct Mail Retail (EDDM Retail),174 a USPS Marketing Mail product designed mainly for local businesses to send geographically-targeted advertising mail to every household or business on a postal delivery route.175 After analyzing the filings and considering the comments received, the Commission issued an order concluding that the proposed rate adjustment and MCS changes for EDDM Retail were consistent with the price cap and preferential rate requirements under title 39, as well as the price cap calculation requirements contained in the Commission’s regulations.176

RATES NOT OF GENERAL APPLICABILITY

For Market Dominant products, the Postal Service sets rates not of general applicability by entering into NSAs with mailers or groups of mailers.177 The Commission reviews these NSAs to ensure they comply with 39 U.S.C. § 3622(c)(10) and the Commission’s regulations in 39 C.F.R. part 3030, subpart D. No Market Dominant NSAs were filed in FY 2020.

Competitive Products

The Commission reviews the Postal Service’s proposed rate adjustments for Competitive products to ensure they comply with three statutory requirements in 39 U.S.C. § 3633(a):

1. Market Dominant products must not subsidize Competitive products178
2. Revenue for each Competitive product must cover its attributable costs, which are “the direct and indirect postal costs attributable to such product through reliably identified causal relationships.”179
3. All Competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service’s institutional costs.180

Competitive rate adjustments must also comply with the Commission’s rules in 39 C.F.R. part 3035. In FY 2020, the Commission reviewed the Postal Service’s proposed changes to both rates of general applicability and rates not of general applicability for Competitive products. Each is discussed below.

RATES OF GENERAL APPLICABILITY

On October 9, 2019, the Postal Service filed a notice proposing changes in rates of general applicability for several domestic and international Competitive products, along with proposed changes to the MCS.181 After reviewing the notice, the CHIR responses, and the comments received, the Commission approved the proposed rate and MCS changes, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations.182

On August 14, 2020, the Postal Service filed a notice proposing time-limited changes in rates of general applicability for Competitive products.183 The Postal Service proposed increasing rates for Priority Mail Express, Priority Mail, First-Class Package Service, Parcel Select, and Parcel Return Service effective October 18, 2020.184 Rates would roll back to current levels on December 27, 2020.185 After reviewing the notice, the CHIR response, and the comments received, the Commission approved the proposed rate adjustments, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations.186

The Postal Service also proposed changes in rates of general applicability and associated MCS...
revisions for Priority Mail Express and Priority Mail to implement a new Loyalty Program that would provide incentives for new and existing Postal Service Click-N-Ship customers. After reviewing the notice, the CHIR response, and the comments received, the Commission approved the proposed rate adjustments, finding that they complied with 39 U.S.C. § 3633(a) and the Commission’s regulations. The Loyalty Program began on August 1, 2020.

RATES NOT OF GENERAL APPLICABILITY

**Negotiated Service Agreements.** For Competitive products, the Postal Service sets rates not of general applicability by entering into NSAs with specific mailers. These NSAs require prior Commission review for compliance with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3035. In FY 2020, the Commission reviewed and approved 267 Competitive NSAs: 210 domestic and 57 international. Table III-1 shows the number of NSAs the Commission approved between FY 2015 and FY 2020.

Products with non-published rates enable the Postal Service to enter into contracts featuring negotiated rates without prior Commission approval of the rates specific to each contract. The Commission reviews rates for the product as a whole for compliance with statutory

### Table III-1: Competitive NSAs Approved by the Commission

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*This table shows approved NSAs the Postal Service filed as new products or as functionally equivalent to the baseline agreement of existing products. This table does not include NSA modifications or amendments.*

### Table III-2: Non-Published Rate Contracts Implemented by the Postal Service

<table>
<thead>
<tr>
<th>Non-Published Rate</th>
<th>FY 2020</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>FY 2017</th>
<th>FY 2016</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Expedited Package Services Non-Published Rates 1-15</td>
<td>380</td>
<td>326</td>
<td>474</td>
<td>393</td>
<td>244</td>
<td>91</td>
</tr>
<tr>
<td>Priority Mail — Non-Published Rates 1 and 2</td>
<td>125</td>
<td>116</td>
<td>145</td>
<td>121</td>
<td>207</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>505</td>
<td>442*</td>
<td>619</td>
<td>514</td>
<td>451</td>
<td>91</td>
</tr>
</tbody>
</table>

* FY 2019 totals differ from those reported in the FY 2019 Annual Report because some Priority Mail—Non-Published Rate NSAs were not included. See FY 2019 Annual Report at 31.*
standards, rather than the rates for each contract before implementation. These non-published rate contracts must comply with applicable filing and regulatory requirements, including pre-approved pricing formulas, minimum cost coverage, and documentation. The absence of prior review of specific contract rates streamlines the approval process, providing the Postal Service with additional flexibility.

On June 25, 2020, the Commission approved the Postal Service’s request to add Priority Mail-Non-Published Rates 2 to the Competitive product list.\(^{190}\) Table III-2 shows the number of non-published rate contracts implemented by the Postal Service between FY 2015 and FY 2020. The Commission updates NSA statistics on its website.\(^{191}\)

**International mail.** Inbound Parcel Post (at UPU rates) is a Competitive product for the acceptance and delivery of inbound parcels weighing up to 70 pounds from foreign postal operators at air rates, surface rates, and e-commerce parcel rates.\(^{192}\) Rates for Inbound Parcel Post (at UPU rates) are rates not of general applicability because they are only available to foreign postal operators. Under the Regulations of the Universal Postal Convention, the Postal Service and other foreign postal operators may qualify for semi-annual increases to their “base” rates for inbound air parcels if they provide certain value added services.\(^{193}\) These rate increases are applied to the base rates effective January 1 and July 1 of each year.\(^{194}\) During FY 2020, the Postal Service filed two rate adjustments for Inbound Parcel Post (at UPU rates).\(^{195}\) The Commission issued two orders that analyzed the proposed rates pursuant to 39 U.S.C. § 3633(a) and acknowledged revised rates for this product.\(^{196}\)

On August 14, 2020, the Postal Service proposed a change in rates not of general applicability for Inbound EMS 2, which covers Express Mail International documents and merchandise received from foreign postal operators for delivery in the Postal Service’s domestic delivery area.\(^{197}\) After analyzing the filings and considering the comments received, the Commission approved the proposed rates, finding that they complied with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3035.105.\(^{198}\)

The Commission also reviewed proposed self-declared rates for Inbound Letter Post, which are described below.\(^{199}\)

**ASSUMED FEDERAL INCOME TAX**

The Commission also reviewed Postal Service calculations related to Competitive products’ income. Each year, the Postal Service is required to calculate the assumed Federal income tax on income from its Competitive products and to transfer the amount calculated from the Competitive Products Fund to the Postal Service Fund.\(^{200}\) On January 10, 2020, the Postal Service filed its calculation of the assumed Federal income tax for FY 2019.\(^{201}\) After reviewing the calculation and considering one comment received, the Commission approved the Postal Service’s calculation of the assumed Federal income tax on its FY 2019 Competitive products’ income.\(^{202}\)
Changes to Product Lists and the Mail Classification Schedule

The Postal Service and mail users may request that the Commission change the Market Dominant and Competitive product lists by adding new products, removing current products, or transferring products between the lists. The Commission reviews requests to change the product lists for compliance with 39 U.S.C. § 3642 and the Commission’s regulations in 39 C.F.R. part 3040.

The product lists are published in the MCS, which also includes rates, fees, and product descriptions for each product. The Postal Service may propose changes to the MCS by filing a request, which the Commission reviews for compliance with its regulations. The Postal Service may propose material changes or minor corrections to the MCS depending on “the degree to which the proposed alteration affects the characteristics of the product.”

In FY 2020, the Commission reviewed and approved three minor corrections to the MCS concerning Adult Signature Service, Priority Mail Express International, and the country price list for international mail. The Commission also approved requests by the Postal Service to change the product lists and MCS. The major dockets are discussed below.

Return Receipt for Merchandise (RRM) Service

On December 10, 2019, the Postal Service filed a renewed request to remove RRM service from the MCS. RRM service “provide[d] retail and commercial mailers with the ability to obtain a mailing receipt and a return receipt postcard (with the recipient’s signature and date of delivery) for packages containing merchandise.” The Postal Service filed its initial request to remove RRM service in FY 2015. The Commission found that removing RRM service met the applicable requirements of 39 U.S.C. § 3642 and the Commission’s regulations. It conditionally approved the request subject to adjustments to the unused rate adjustment authority for the Special Services class. In response, the Postal Service notified the Commission that it would indefinitely defer the removal of RRM service.

After a series of appeals, the D.C. Circuit vacated the Commission’s previous orders on the removal of RRM service. The court concluded that 39 U.S.C. § 3642 was a “sufficient and complete mechanism” for considering requested changes to the product lists and that removing a product from the product lists does not constitute a rate adjustment. Because it had been more than a year since the D.C. Circuit issued its decision, and the Postal Service had not indicated a renewed intent to discontinue RRM service, the Commission closed the docket on August 29, 2019. The Commission held that it would evaluate any future requests to remove a product from the MCS in light of the court’s decision.

In its renewed request and motion to reopen the docket, the Postal Service stated that the Commission already held that removing RRM service from the MCS complies with 39 U.S.C. § 3642 and the Commission’s regulations. It also confirmed that there had been no material changes concerning RRM service since 2015 that would require the Commission to revisit its initial findings. After evaluating the request and considering the comments received, the Commission approved removing RRM service from the MCS and revised the MCS accordingly.
Customized Postage

On May 1, 2020, the Postal Service filed a request to remove Customized Postage from the Market Dominant product list and revise the MCS accordingly. Customized Postage allows "authorized vendors [to] offer customers the ability to personalize postage indicia using the customer's own images or text." The Postal Service explained that demand and revenue for Customized Postage products have steadily declined in recent years, and eligibility requirements for the program have caused customer complaints and legal disputes.

After analyzing the filings, the CHIR response, and the comments received, the Commission approved the request because it complied with applicable statutory and regulatory requirements. The Commission found that because the Postal Service cannot create an unfair competitive advantage against itself, eliminating Customized Postage does not constitute an abuse of market power. It concluded that "[g]iven the lack of market power abuse by the Postal Service and after consideration of the available alternatives for postage and customization of mailings, the Commission has determined that the Postal Service has met the statutory and regulatory requirements for product removal." The Commission removed Customized Postage from the Market Dominant product list and revised the MCS accordingly.

International Mail

In FY 2020, the Postal Service filed several requests to change the product lists and MCS that relate to international NSAs and the Inbound Letter Post product.

NSAs. On December 13, 2019, the Postal Service filed a request to transfer five international Market Dominant NSAs from the Market Dominant to the Competitive product list. The request proposed to remove these five NSAs from the Market Dominant product list and add them to the Competitive product list under the umbrella product Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1. After analyzing the filings and considering comments received, the Commission found that the transfer request complied with the requirements of 39 U.S.C. §§ 3642 (product list changes) and 3633 (Competitive products). The Commission also found that because the NSAs were functionally equivalent to the baseline agreements for the umbrella product Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, the NSAs could be consolidated into this product.

Inbound Letter Post. Inbound Letter Post consists of international mail that is mailed from foreign countries and is delivered in the United States. Inbound Letter Post is divided into three shapes: small letters and cards, large letters or "flats," and small packets and bulky letters. Foreign postal operators reimburse the Postal Service for delivering Inbound Letter Post items at rates called terminal dues, which are set by the UPU. Terminal dues for Inbound Letter Post have long been a concern of the Commission and
other postal stakeholders because they have historically not covered the Postal Service’s costs for delivery.236 In FY 2018, President Donald J. Trump issued a presidential memorandum directing the Secretary of State to seek agreement to reform the UPU terminal dues system to ensure that prices are consistent with the policies outlined in the memorandum.237 The White House Press Secretary subsequently issued a statement noting that sufficient progress had not been made on reforming the UPU terminal dues system.238 In this statement, the President concurred with the State Department’s recommendation to adopt self-declared rates for terminal dues no later than January 1, 2020.239 The State Department also notified the UPU that the United States would withdraw in 1 year.240 In response to the notice of withdrawal, the UPU held its Third Extraordinary Congress in September 2019 and adopted proposals authorizing the Postal Service to charge self-declared rates for Inbound Letter Post small packets effective July 1, 2020.241 As a result, the United States withdrew its notification that it would leave the UPU.242

On October 29, 2019, the Postal Service filed with the Commission proposed self-declared rates that would be implemented on July 1, 2020.243 On November 20, 2019, the Postal Service filed a motion to implement the transfer of Inbound Letter Post small packets from the Market Dominant to the Competitive product list effective January 1, 2020.244 The Commission reviewed the motion along with the Postal Service’s proposed self-declared rates. After analyzing the filings and considering comments received, the Commission granted the motion and approved adding a new product called Inbound Letter Post Small Packets and Bulky Letters to the Competitive product list effective January 1, 2020.245 The Commission also approved proposed rates for this product effective July 1, 2020.246 The Postal Service filed the self-declared rates for Inbound Letter Post Small Packets and Bulky Letters under seal and requested that the Commission treat these rates as non-public.247 On March 9, 2020, the Commission issued a final determination finding that these rates should be unsealed.248 It found that the Postal Service did not meet its burden of persuasion to demonstrate that the rates should be non-public.249 The Commission stated that unsealing the rates “will substantially further the public interest” and that it was unlikely that disclosing the rates would result in commercial harm to the Postal Service.250 It directed the Postal Service to publicly file the rates 7 days after the UPU publishes them, which the Postal Service did on April 6, 2020.251

The Postal Service also filed with the Commission proposed self-declared rates for Inbound Letter Post Small Packets and Bulky Letters effective January 1, 2021.252 The Postal Service filed the proposed rates under seal and requested that the Commission afford these rates non-public treatment.253 After analyzing the filings and considering comments received, the Commission approved the proposed rates for Inbound Letter Post Small Packets and Bulky Letters on May 8, 2020, finding that they complied with the statutory and regulatory requirements for Competitive products.254 On June 3, 2020, the Commission issued a final determination finding these rates should be unsealed and ordered the Postal Service to file them publicly 7 days after the UPU published them.255 The Postal Service filed these rates publicly on July 20, 2020.256
Public Inquiries

Public inquiry dockets are established by the Commission to provide a venue to explore issues of general interest. Three public inquiry dockets were before the Commission in FY 2020 that dealt with matters related to service performance, the value of the postal and mailbox monopolies, and city carrier costs.

Service Performance

Service performance results measure how often the Postal Service meets its service standards, which are the stated days-to-delivery for different types of mail. Service performance for Market Dominant products is measured using SPM systems. In FY 2018, the Commission conditionally approved the Postal Service’s request to implement new internal SPM systems for several Market Dominant products, including products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services. In FY 2018 and FY 2019, the Commission issued two orders conditionally approving modifications to the internal SPM systems. The Postal Service began using data generated from the new SPM systems in the first quarter of FY 2019 to fulfill the statutory and regulatory requirements for service performance measurement of the affected products.

On June 12, 2020, the Postal Service filed a request seeking final approval to use the internal SPM systems as the official measurement system for service performance reporting for certain Market Dominant products and services. The Postal Service asserted that it satisfied the conditions described in previous orders. On July 1, 2020, the Commission issued an order finding that the Postal Service satisfied the Commission’s directives for conditional modifications described in previous orders. The Commission granted the request “subject to the continuation of the external auditing program and the inclusion of appropriate explanations in the first annual compliance report based on data from SPM” for the specific products at issue.

Value of Postal and Mailbox Monopolies

In the Annual Report, the Commission estimates the value of the Postal Service’s combined letter and mailbox monopolies, which together are referred to as the postal monopoly. The Annual Report includes a separate estimate of the value of the mailbox monopoly alone. The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence. The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes.

On October 1, 2019, the Commission initiated a public inquiry docket to evaluate the methodology for estimating the value of the postal and mailbox monopolies. The current methodology estimates the hypothetical lost profit to the Postal Service if potential competitors were allowed to enter and compete in the Postal Service’s letter and mailbox monopolies. The Commission sought comments and suggestions for changing and enhancing the current estimation methodology “to account specifically for recent Postal Service data changes, and for any other aspects of the monopolies estimation methodology.” Five CHIRs were issued, and six comments were received. This docket is currently pending before the Commission.
City Carrier Costs

In FY 2017, the Commission established Docket No. PI2017-1 to evaluate the Postal Service's progress in its ongoing efforts to update its city carrier cost models and data collection capabilities as required by the Commission. The Commission stated that based on the CHIR responses and the comments received, additional data are necessary to evaluate whether the Postal Service's city carrier costing models can be improved. Accordingly, the Commission directed the Postal Service to provide an expanded dataset of city carrier delivery data, as well as report quarterly on the status of developing the expanded dataset. In FY 2019, the Postal Service began providing data and status reports as directed by the interim order. This proceeding is currently pending before the Commission.

Proposals to Change Analytical Principles

Analytical principles are theories or assumptions the Postal Service applies when producing reports it submits to the Commission each year. In these reports, the Postal Service must only use accepted analytical principles, which are the analytical principles the Commission applied in the most recent ACD unless a different analytical principle is approved through a Commission proceeding. The Commission’s rules allow any interested person, including the Postal Service and a Public Representative, to petition the Commission to initiate proceedings to consider proposals to change an accepted analytical principle. These proceedings, which are filed in rulemaking dockets, are intended to improve the quality, accuracy, or completeness of data or data analysis in the reports the Postal Service submits each year to the Commission.

During FY 2020, the Commission considered 15 Postal Service proposals to change various accepted analytical principles and 1 proposal filed by United Parcel Service, Inc. (UPS). The Commission issued final orders for 13 of the proposals. At the end of FY 2020, three proposals were pending before the Commission.

Docket No. RM2019-16 (Proposal One). In this docket, the Postal Service sought to revise the cost attribution procedures for Special Purpose Routes (SPRs) used in the Cost and Revenue Analysis Report. Proposal One was based on a new study of SPR costs that used operational carrier data to reflect the current structure of SPR activities. The Postal Service reported that approving Proposal One would result in two primary cost shifts. First, costs for Competitive products would increase and costs for some Market Dominant products would decrease. Second, costs associated with packages would increase and costs for letters and flats would decrease. The Postal Service used data from the FY 2018 ACR to estimate the impact of Proposal One. The Postal Service reported that Proposal One would result in an increase of $124.7 million in attributable costs for domestic Competitive mail products and in a decrease of $67.8 million in attributable costs for domestic Market Dominant mail products. The overall impact on attributable costs for domestic products would be an increase of approximately $57.0 million.

On January 14, 2020, the Commission approved Proposal One with some modifications.
Commission found that the new SPR costing study reflects how SPR activities have changed in the more than 20 years since the special study underlying the existing methodology was conducted. The Commission found that the new SPR costing study is an improvement in part because it uses operational data, where available, instead of survey data, which is likely to enhance the quality of the methodology. The Commission also found it appropriate that the Postal Service developed new cost pools to reflect operational realities of SPR activities. The Commission found the applied econometric models to be an improvement, but modified the specifications of the delivery equations.

**Docket No. RM2020-1 (Proposal Nine).** In this docket, the Postal Service sought to update the methodology for estimating facility-related costs. The existing methodology for allocating facility-related costs to products used input data from a 1999 study presented in Docket No. R2005-1. The Postal Service had applied the existing methodology in subsequent ACR dockets and included changes that reflected facility space usage changes that occurred each fiscal year since 2005. In FY 2016, the Postal Service Office of Inspector General (OIG) issued an audit report recommending that the Postal Service conduct a new study on facility space usage. The Postal Service conducted this study in 2018 and 2019 and incorporated data from that study in Proposal Nine.

In FY 2018, facility-related space provision and space support costs accounted for $4.7 billion, or 6.3 percent of total costs. Compared to Docket No. ACR2018, Proposal Nine would increase total domestic Market Dominant mail attributable costs by $127.3 million and decrease total domestic Market Dominant services attributable costs by $303.8 million. Combined, overall total domestic Market Dominant attributable costs would decrease by $176.5 million, and total domestic Competitive attributable costs would increase by $85.3 million. Total attributable costs for First-Class Mail and USPS Marketing Mail would increase by $69.2 million and $54.3 million, respectively.

The Commission approved Proposal Nine on August 17, 2020. It found that the more recent study better reflects current operations and functions that have changed in the past 20 years since the 1999 study, which underlies the existing methodology. The Commission also viewed the more recent study as an improvement over the existing methodology because it uses more current operational data to update, validate, and adjust the space estimates, which significantly improves the quality, accuracy and completeness of the Postal Service’s facility-related space cost models.

**Docket No. RM2020-7 (Proposal Two).** In this docket, the Postal Service proposed a methodology for updating city carrier regular letter and flat street delivery time variabilities annually to reflect changes in the relative volumes of letter and flat mail. The existing methodology computed regular delivery time variabilities using mean volumes that were typically calculated from data in a City Carrier Street Time study conducted in 2013. Proposal Two proposed to update the regular delivery time variabilities using more recent mean volumes that are calculated by forming the needed volume proportions using more recent data from the FY 2019 City Carrier Cost System (CCCS) volumes. This approach would keep total volumes of letters and flats the same as they were under the existing methodology and only change the relative proportions between volumes of letters and flats to reflect current volume patterns. The Postal Service would apply Proposal Two annually to update mean volumes that would make it possible to update the delivery marginal times and variabilities.

To estimate the impact of Proposal Two, the Postal Service recalculated the regular delivery variabilities using FY 2019 CCCS volume proportions. Comparing current and new variabilities showed that for both delivery point
sequence mail and cased mail, the new variabilities were approximately 0.5 percent higher than the current variabilities.311 By contrast, the new variabilities for sequenced mail and FSS flats were lower than the existing ones by 1.0 percent and 1.1 percent respectively.312 The Postal Service also determined that the new variabilities reduced the gap between FSS and non-FSS unit street time costs for flats.313 The new variabilities also resulted in changes to the unit volume variable city carrier costs for nearly all products, the largest impact being on unit variable costs for High Density and Saturation Flats and Parcels, which decreased by 1.2 cents per piece.314 For domestic Competitive mail products and services, Proposal Two would result in a decrease of unit volume variable costs of 0.2 cents per piece on average.315

In Order No. 5583, the Commission approved Proposal Two because it improves the accuracy of unit volume variable costs by annually updating mean volumes and recalculating the city carrier regular delivery street time variabilities to reflect current volume proportions among delivered mail components.316 The Commission also found that annually updating mean volumes of city carrier regular delivery mail will result in more accurate regular delivery street time variabilities and will produce a more accurate estimate of city carrier volume variable costs until a new city carrier street time model is developed.317

**Other proposals.** In FY 2020, the Commission approved several other proposed methodology changes regarding domestic and international mail. Docket No. RM2019-12 (Proposal Seven) changed the methodology used to determine the share of supervisor costs on Sundays and holidays at customer service offices and to distribute these costs to products.318 The previous methodology had used the In-Office Cost System (IOCS) to estimate work time for supervisors.319 The methodology approved in Proposal Seven uses Time and Attendance Collection System (TACS) workhours to determine the share of costs for supervisors at customer service offices on Sundays and holidays.320 Then it distributes these costs to products using the same Product Tracking and Reporting distribution key used for city carriers delivering packages on Sundays and holidays.321

Docket No. RM2019-14 (Proposal Eight) modified the Parcel Select/Parcel Return Service mail processing and transportation cost models by incorporating Parcel Select Lightweight mailpieces.322 Docket No. RM2020-6 (Proposal One) changed the revenue, pieces, and weight (RPW) reporting methodology “for measuring the national totals of non-contract mailpieces in domestic parcel mail categories bearing PC Postage indicia from postage evidencing systems” by replacing sampling estimates with corresponding census transactional data.323 Docket No. RM2020-10 (Proposal Three) changed the IOCS methodology for sampling city carriers from the existing IOCS sampling methodology to an IOCS-Cluster sampling system, which the Commission found improved the overall accuracy of the city carrier cost estimates.324

The Commission also approved seven proposed methodology changes relating to international mail products. These changes included revising the following:

- The revenue distribution methodology for Inbound LC/AO mailpieces325
- The costing methodology for the distribution of PRIME enhanced payments326
- The costing methodology for the treatment of the non-NSA portions of International Priority Airmail and International Surface Airlift327
- The methodology for reporting revenue, pieces, and weight of Priority Mail Express International in the Postal Service's RPW report328
- The International Cost and Revenue Analysis reporting methodology used to estimate international mail settlement expenses329
- The RPW reporting methodology “for measuring the national totals of non-contract mailpieces in outbound international product categories bearing PC Postage indicia from postage evidencing systems”330
Pending proposals. Three proposals were open at the end of FY 2020. In Docket No. RM2020-2 (Proposal Ten), the Postal Service proposed a new methodology for calculating the cost variability of postmasters. In Docket No. RM2020-13 (Proposal Six), the Postal Service proposed establishing a new methodology to determine the volume variability factors for the mail processing cost pools representing automated letter and flat sorting operations.

In Docket No. RM2020-9 (UPS Proposal One), UPS requested that the Commission change how the Postal Service determines incremental costs and accounts for peak-season costs in its periodic reports. UPS alleged that existing costing models approved by the Commission fail to account for increased seasonal costs. On September 29, 2020, a video technical conference was held online in this proceeding to consider matters raised by UPS Proposal One. The Commission provided interested persons an opportunity to comment on matters raised by UPS Proposal One and at the technical conference. The Commission is currently considering comments received.

Other Proceedings

Several other proceedings were before the Commission in FY 2020: two complaint cases, two market tests, and one post office closing appeal. Each proceeding is described below.

Complaints

In FY 2020, the Commission adjudicated two complaint cases. A complaint may be filed with the Commission by any interested person who believes the Postal Service is not complying with certain requirements of title 39. One requirement is 39 U.S.C. § 403(c), which states that the Postal Service must not “make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.” On December 23, 2019, Randall Ehrlich filed a complaint alleging violations of section 403(c) based on an ongoing suspension of mail service to his home. The Postal Service filed a motion to dismiss, to which Mr. Ehrlich filed a response. On March 17, 2020, the Commission issued an order denying the motion to dismiss and finding that the complaint raised material issues of fact. It initiated limited formal proceedings by appointing a Presiding Officer to set a procedural schedule and conduct limited discovery to resolve disputed issues of fact. On May 22, 2020, the Postal Service again moved to dismiss the complaint because it had permanently restored residential mail delivery to Mr. Ehrlich’s mailbox. On June 2, 2020, the Presiding Officer issued an intermediate decision that included findings of fact and conclusions of law and addressed issues raised in the proceeding. She dismissed the complaint without prejudice. Consistent with applicable Commission rules, because no party filed an exception to the intermediate decision, it became the final Commission action as of July 2, 2020.

However the Presiding Officer also allowed Mr. Ehrlich to request to reopen the case within 6 months of that July 2, 2020 date if the Postal Service suspends mail delivery without sufficient justification during that time period. The Commission also adjudicated a complaint filed by the Greeting Card Association (GCA) alleging that the Postal Service’s rates for Single-Piece First-Class Stamped and Metered Letter mail violated 39 U.S.C. § 403(c) by illegally price discriminating against household mailers in favor of business mailers. GCA also alleged that these rates failed to
achieve several objectives of the postal regulatory system, set out in 39 U.S.C. § 3622(b).348 The Postal Service, the National Postal Policy Council, and Pitney Bowes, Inc. filed motions to dismiss the complaint, to which GCA filed answers.349

On April 28, 2020, the Commission issued an order granting the Postal Service’s motion to dismiss the complaint with prejudice.350 The Commission explained that it had already considered and rejected GCA’s arguments about section 3622 in numerous prior Commission proceedings.351 Regarding violations of section 403(c), the Commission stated that to succeed on this claim, GCA must pass a three-part test for evaluating whether price discrimination rises to the level of “undue or unreasonable.”352 GCA must establish that household mailers “have been offered less favorable rates or terms and conditions” compared to other mailers and are “similarly situated to the other mailer or mailers who have been offered more favorable rates or terms and conditions of service.”353 Also, there must be no rational or legitimate basis for the Postal Service to deny household mailers the more favorable rates or terms and conditions.354 The Commission applied this test and determined that GCA could not establish the third prong of the price discrimination test because the Postal Service has provided a reasonable rationale for offering the metered letter rate.355 Accordingly, the Commission dismissed the complaint with prejudice.356

Market Tests and Post Office Closing Appeals

The PAEA permits the Postal Service to conduct market tests of experimental products, which allows the Postal Service to offer products and services for a limited time period without first adding them to product lists.357 Before initiating a market test, the Postal Service must provide 30 days advance notice to the Commission through a filing containing certain information.358 In FY 2020, the Postal Service filed notices of two market tests. Commercial PO Box Redirect Service redirects automated letters during mail processing from the Commercial PO Box listed on the mailpiece to a second Commercial PO Box.359 Extended Mail Forwarding provides customers who submit a permanent change-of-address request the option to extend forwarding of all First-Class Mail, First-Class Package Service Commercial, and Priority Mail mailpieces beyond the 1-year forwarding period.360 After analyzing the filings and considering comments received, the Commission authorized the market tests to proceed, finding that they complied with the applicable statutory and regulatory requirements in 39 U.S.C. § 3651 and 39 C.F.R. part 3045.361 The PAEA also permits any person served by a post office to appeal its closing or consolidation to the Postal Regulatory Commission.362 In FY 2020, the Commission reviewed one post office closing appeal filed by the City of Bellville, Georgia (GA) regarding the closing of the Bellville, GA post office.363 The Postal Service filed a motion to dismiss the appeal, and the City of Bellville filed a brief opposing it.364 On August 27, 2020, the Postal Service filed a notice of its decision to pause the Bellville, GA post office closing.365 The Commission issued an order dismissing the appeal without prejudice, which allows persons served by the Bellville, GA post office to appeal its closure if and when the Postal Service establishes a revised date for closing the post office.366
Court of Appeals Cases

A person adversely affected or aggrieved by the Commission’s final order or decision may appeal the order or decision to the D.C. Circuit within 30 days after it becomes final. In FY 2020, the D.C. Circuit issued several decisions involving Commission orders, which are discussed below.

Inbound Letter Post Unsealing

As part of its FY 2018 ACR, the Postal Service filed under seal and applied for non-public treatment of a library reference containing data on Inbound Letter Post. On April 12, 2019, the Commission issued its FY 2018 ACD, which included an analysis of Inbound Letter Post data in an accompanying library reference. Because the Commission’s library reference contained data that the Postal Service filed under seal, the Commission filed both its analysis and the underlying data under seal in Library Reference PRC-LR-ACR2018-NP3. Concurrently, the Commission issued a notice of its preliminary determination that it would not be appropriate to accord that library reference non-public treatment and that the materials should be unsealed. It provided interested persons an opportunity to comment.

After considering comments received, the Commission issued an order directing that the library reference be unsealed. It determined that disclosure of the aggregated Inbound Letter Post data and analysis would substantially further the public interest in maintaining financial transparency of the Postal Service. The Commission explained that the public interest in maintaining the Postal Service’s financial transparency “outweigh[ed] the nature and extent of any likely commercial harm that may result from disclosing the aggregated historical data.”

The Postal Service filed a petition for review appealing this order to the D.C. Circuit. The Commission stayed release of the data under seal pending the D.C. Circuit’s review. On June 30, 2020, the D.C. Circuit issued its decision denying the petition for review and finding that the Commission’s order was neither contrary to law nor arbitrary and capricious. The D.C. Circuit found that the Commission reasonably ordered disclosure of the library reference, and the Postal Service’s arguments “fail to overcome the deference [the court] owes to the Commission’s reasoned decisions.” It stated it was “reasonable for the Commission to consider the extent to which commenters have expressed an interest in disclosure, and indeed, the Administrative Procedure Act require[d] the Commission to address significant public comments.”

On September 1, 2020, Library Reference PRC-LR-ACR2018-NP3 was unsealed and posted on the Commission’s website as a public library reference.

In Docket No. ACR2019, the Commission made a similar determination regarding a non-public library reference filed with the FY 2019 ACD that also contained Inbound Letter Post data. The Commission stated it was “not appropriate to accord non-public treatment to the data and analysis” in the library reference and directed that these materials should be unsealed. The FY 2019 data also were unsealed contemporaneous with issuing the Commission’s determination regarding the FY 2019 ACD data.
Review of Appropriate Share Requirement

The PAEA requires that Competitive products “collectively cover what the Commission determines to be an appropriate share of the [Postal Service’s] institutional costs ...” At least every 5 years, the Commission must review the appropriate share requirement to decide whether any changes are necessary. When making this determination, the Commission must consider, among other factors, “the degree to which any costs are uniquely or disproportionately associated with any [C]ompetitive products.” On January 3, 2019, the Commission adopted final rules for annually calculating Competitive products’ appropriate share of institutional costs.

UPS filed a petition for review appealing the final rules to the D.C. Circuit. The court granted the petition for review, finding that the Commission had not adequately explained how the attribution of costs through the use of “reliably identified causal relationships” can coincide with costs “uniquely or disproportionately associated with any [C]ompetitive products.” The court also stated that when setting the appropriate share, the Commission did not adequately consider “the degree to which any costs are uniquely or disproportionately associated with any [C]ompetitive products” as required by 39 U.S.C. § 3633(b). The court remanded the case to the Commission to address these issues consistent with the court’s decision. The remand is currently pending before the Commission.

First-Class Mail Rate Adjustments

The D.C. Circuit issued a decision regarding Order No. 4875, in which the Commission found that the Postal Service’s planned Market Dominant rate and MCS changes were consistent with applicable law. In FY 2019, Douglas F. Carlson filed a petition for review appealing the portion of Order No. 4875 related to First-Class Mail to the D.C. Circuit. On September 13, 2019, the D.C. Circuit issued its opinion granting the petition for review and vacating the portion of Order No. 4875 addressing rate adjustments for First-Class Mail. Specifically, the court concluded that Order No. 4875 failed to provide an adequate explanation for the Stamped Letters price increase, address the statutory objectives and factors relevant to the Stamped Letters price increase, and respond to comments challenging the Stamped Letters price increase under the statutory objectives and factors.

In accordance with the D.C. Circuit’s decision, the Commission issued Order No. 5285, which applied the requirements of the PAEA, the Administrative Procedure Act, and the Commission’s regulations to determine whether the First-Class Mail rate adjustments were consistent with applicable law. After considering the objectives and factors of 39 U.S.C. § 3622(b) and (c), the reasons for the Stamped Letters price increase, and the comments received, the Commission concluded that the rate adjustments for First-Class Mail were consistent with applicable law.

Other Court of Appeal Cases

In FY 2019, the Commission issued an order dismissing a complaint filed by Mr. Ehrlich that alleged an ongoing suspension of mail service to his home and sought specified actions to resolve his complaint. Mr. Ehrlich appealed the Commission’s order to the D.C. Circuit. On December 10, 2019, the D.C. Circuit issued a judgment denying the petition for review, finding
that the Commission provided a “well-reasoned” justification for its decision.\textsuperscript{402} It stated that Mr. Ehrlich “failed to show that the Postal Service has offered more favorable rates or terms and conditions [of mail service] to similarly situated individuals.”\textsuperscript{403} The D.C. Circuit concluded that the Commission’s decision withstood its deferential arbitrary-and-capricious standard of review.\textsuperscript{404}

The D.C. Circuit also denied a motion filed by Elaine Mittleman to recall a mandate from an earlier court decision. In FY 2014, the D.C. Circuit issued a decision denying petitions for review filed by Ms. Mittleman and two other petitioners regarding three Commission orders dismissing post office closing appeals.\textsuperscript{405} The D.C. Circuit issued a mandate finalizing the decision on October 29, 2014.\textsuperscript{406} On September 25, 2020, Ms. Mittleman filed a motion with the D.C. Circuit to recall the mandate, which the Commission opposed.\textsuperscript{407} On October 23, 2020, the D.C. Circuit issued an order denying Ms. Mittleman’s motion without issuing an opinion.\textsuperscript{408}

The Postal Service and other parties filed petitions for review appealing the Commission’s final rules adopting changes to the regulations governing the Market Dominant Rate System.\textsuperscript{409} These appeals are pending before the D.C. Circuit.

**International Postal Policy**

The Secretary of State is responsible for formulating, coordinating, and overseeing international postal policy, as well as concluding postal treaties such as those involving the UPU.\textsuperscript{410} Headquartered in Bern, Switzerland, the UPU is an international treaty organization responsible for facilitating high-quality universal mail service at affordable rates. Although the State Department has primary authority over international postal policy, it must request the Commission’s views on whether any treaty, convention, or amendment that establishes a rate or classification for a Market Dominant product is consistent with the Market Dominant Rate System.\textsuperscript{411} The State Department must ensure that each treaty, convention, or amendment concluded is consistent with the Commission’s views unless there is a foreign policy or national security concern.\textsuperscript{412}

Pursuant to 39 U.S.C. § 407(c)(1), the Secretary of State requested that the Commission provide its views on the “consistency of proposals to amend rates or classifications for [M]arket [D]ominant products or services within the Universal Postal Convention that will be considered at the upcoming 27th Universal Postal Union (UPU) Congress with the standards and criteria established by the Commission under 39 U.S.C. § 3622[,]” which was initially scheduled to occur in August 2020.\textsuperscript{413}

Pursuant to section 407(c)(1) and the Commission’s regulations, the Commission established Docket No. IM2020-1 for the purpose of “developing its views on whether certain proposals for the upcoming UPU Congress are consistent with the standards and criteria for modern rate regulation established by the Commission under 39 U.S.C. 3622” and set a deadline for public comment.\textsuperscript{414} The Commission subsequently posted proposals and a background document for public comment.\textsuperscript{415} Because the UPU later postponed the 27th UPU Congress due to the COVID-19 pandemic,\textsuperscript{416} the Commission stated it will provide a revised comment deadline once the 27th UPU Congress is rescheduled.\textsuperscript{417}
Background

In this chapter, the Commission provides its annual estimates of the cost of the Universal Service Obligation (USO) and the value of the postal monopoly. In its Report on Universal Postal Service and the Postal Monopoly, the Commission stated that the overarching USO of the Postal Service is set forth in 39 U.S.C. § 101(a), which states that the Postal Service must “provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” The USO has seven principal attributes: (1) geographic scope, (2) product range, (3) access, (4) delivery, (5) pricing, (6) service quality, and (7) an enforcement mechanism.418

The postal monopoly is the Postal Service’s exclusive right to carry and deliver certain types of mail and deposit mail into mailboxes.419 Unlike the cost of the USO (USO Cost), the Commission is not required to estimate annually the value of the postal monopoly. The Commission provides estimates for both the USO Cost and a provisional value of the postal monopoly to present a balanced perspective.420

In 2008, the Commission estimated the USO Cost and the value of the postal monopoly in the USO Report. The Commission updates these estimates each year in the Annual Report. Beginning in FY 2018, the net cost of the Postal Inspection Service was included in the estimate of the USO Cost.
Table IV-1: Estimated USO Cost ($ Billions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve</td>
<td>0.53</td>
<td>0.50</td>
<td>0.46</td>
<td>0.39</td>
<td>0.35</td>
</tr>
<tr>
<td>Estimated Revenue Not Received Due to Free or Reduced Rates</td>
<td>1.89</td>
<td>1.79</td>
<td>1.71</td>
<td>1.64</td>
<td>1.63</td>
</tr>
<tr>
<td>Other Public Services or Activities*</td>
<td>2.91</td>
<td>2.92</td>
<td>2.35</td>
<td>2.37</td>
<td>2.26</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5.32</strong></td>
<td><strong>5.21</strong></td>
<td><strong>4.53</strong></td>
<td><strong>4.40</strong></td>
<td><strong>4.24</strong></td>
</tr>
</tbody>
</table>

*The FY 2018 and FY 2019 figures include the net cost of the Postal Inspection Service. The sum of columns may not equal total due to rounding.

Estimated USO Cost

The PAEA requires the Commission to estimate the costs incurred by the Postal Service in providing three types of public services or activities:\(^{421}\)

- Postal services to areas of the nation the Postal Service would not otherwise serve
- Free or reduced rates for postal services as required by title 39
- Other public services or activities the Postal Service would not otherwise provide but for the requirements of law

The USO Cost is the total amount of costs incurred by the Postal Service in providing these public services or activities. Table IV-1 illustrates the estimated USO Cost for the last 5 fiscal years, FY 2015 to FY 2019.\(^{422}\)

In this chapter, the Commission provides estimates of the costs incurred by the Postal Service in providing the public services or activities under 39 U.S.C. § 3651(b)(1), describes related statutory requirements, and explains the methodologies used to estimate these costs.\(^{423}\)

Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve

The Commission must estimate the costs incurred by the Postal Service in providing: postal services to areas of the Nation where, in the judgment of the Postal Regulatory Commission, the Postal Service either would not provide services at all or would not provide such services in accordance with the requirements of [title 39 U.S.C.] section 101(b)[.]\(^{424}\)

The Commission determines these costs by combining the estimated costs of maintaining small post offices, the Alaska Air Subsidy, and Group E Post Office Boxes. Table IV-2 compares the costs of each one from FY 2015 to FY 2019.

As shown in Table IV-2, the estimated total cost of providing postal services to areas of the nation the Postal Service would not otherwise serve increased each year between FY 2015 and
In FY 2019, the increase was due to the increase in both the Alaska Air Subsidy and clerk costs for maintaining small post offices.

**Table IV-2: Estimated Costs of Providing Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve ($ Millions)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining Small Post Offices</td>
<td>358</td>
<td>340</td>
<td>309</td>
<td>245</td>
<td>209</td>
</tr>
<tr>
<td>Alaska Air Subsidy</td>
<td>135</td>
<td>120</td>
<td>114</td>
<td>113</td>
<td>107</td>
</tr>
<tr>
<td>Group E Post Office Boxes</td>
<td>35</td>
<td>35</td>
<td>34</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>527</strong></td>
<td><strong>496</strong></td>
<td><strong>458</strong></td>
<td><strong>392</strong></td>
<td><strong>349</strong></td>
</tr>
</tbody>
</table>

*The sum of columns may not equal total due to rounding.*

**MAINTAINING SMALL POST OFFICES**

The Postal Service maintains small post offices, which are generally located in rural or remote areas, as part of its duty “to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.”

The Postal Service uses Cost Ascertainment Group (CAG) classifications A to L to categorize post offices based on revenue generated. Small post offices are those that fall within CAG K and L classifications.

The Commission determines the costs of maintaining small post offices by estimating the amount the Postal Service would save if rural carriers on the street provided the same services as those provided at small post offices, as well as the amount of revenue lost from existing CAG K and L Post Office Boxes. The Commission uses the Rural Mail Count to estimate the cost of rural carriers providing retail services and for new delivery service to those who would no longer have a CAG K and L Post Office Box.

Table IV-2 lists the estimated costs of maintaining small post offices from FY 2015 to FY 2019. The estimated costs of maintaining small post offices incorporate the main categories of employees who may perform functions that were previously performed primarily by postmasters.

Table IV-3 disaggregates the costs of maintaining small post offices by component and illustrates the recent large shifts among these components. It also illustrates changes in employee categories staffing CAG K and L post offices. Total Postmaster direct and indirect costs increased 46 percent between FY 2015 and FY 2019, from $26 million to $38 million. Total CAG L leave replacement costs declined 80 percent from $102 million in FY 2015 to $20 million in FY 2019. Conversely, beginning in FY 2015, CAG K clerk costs have increased substantially, from $176 million in FY 2015 to $408 million in FY 2019. Most of the total increase is made up of increased salary and benefit costs.
### Table IV-3: Estimated Cost Savings from Closing CAG K and L Post Offices
Derivation of Updated Costs of Maintaining Small Post Offices ($ Millions)

<table>
<thead>
<tr>
<th>Selected CAG K and L Post Offices Annual Operating Costs</th>
<th>FY 2018</th>
<th>FY 2017</th>
<th>FY 2016</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAG K and L Postmasters&lt;sup&gt;a&lt;/sup&gt;</td>
<td>38</td>
<td>30</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>CAG L Leave Replacements</td>
<td>20</td>
<td>21</td>
<td>29</td>
<td>102</td>
</tr>
<tr>
<td>CAG K Clerks</td>
<td>408</td>
<td>358</td>
<td>289</td>
<td>176</td>
</tr>
<tr>
<td>Total Potential Operating Costs Saved (If CAG K and L Post Offices Closed)</td>
<td>466</td>
<td>408</td>
<td>343</td>
<td>304</td>
</tr>
</tbody>
</table>

#### Annual Estimated Cost Saving Adjustments (If CAG K and L Post Offices Closed)

| Rural Carrier Now Provides Retail Services Costs<sup>b</sup> | 23      | 18      | 17      |
| Rural Carrier Now Provides Delivery Service (CAG K and L Post Office Boxes No Longer Available)<sup>c</sup> | 44      | 42      | 42      | 42      |
| CAG K and L Post Office Boxes Revenue Foregone<sup>d</sup> | 42      | 38      | 37      | 36      |
| Total Annual Cost Savings Adjustment                      | 109     | 99      | 97      | 96      |
| Cost of Maintaining Small Post Offices (Potential Operating Costs Saved Less Cost Savings Adjustments) | 358     | 309     | 245     | 209     |

Note: The sum of individual row components may not equal totals due to rounding.

<sup>a</sup> Consistent with the USO Report, previous Annual Reports used the approximated total CAG K and L postmaster salary costs (along with overhead and other personnel and non-personnel related costs) to represent the total potential operating costs saved if CAG K and L post offices closed. Postmaster costs at CAG K and L post offices were derived by using the postmaster salary costs from the Postmaster Position Schedule CAG group proportions to distribute total postmaster (less CAG L leave replacements) costs to the CAG K and L group.

<sup>b</sup> The annual number of CAG K and L retail transactions was approximated using the most currently available data: the FY 2010 retail transactions per revenue dollar and the FY 2013 POSTPlan revenues in Docket No. N2012-1. The annual number of CAG K and L retail transactions was estimated to be approximately 142 million and was used in this calculation for the fiscal years shown in the table.

<sup>c</sup> FY 2010 CAG K and L Post Office Box volumes were used to estimate the number of new delivery points (for those CAG K and L Post Office Boxes no longer available if the post offices were to close).

<sup>d</sup> The FY 2010 CAG K and L Post Office Box volumes were used with the respective current fiscal year Post Office Box unit revenue (billing determinants) to estimate fiscal year CAG K and L Post Office Boxes revenue foregone. Sources: Postmaster Position Schedule CAG Group Proportions: Library Reference 32 in Docket Nos. ACR2015, ACR2016, ACR2017, ACR2018, and ACR2019 (CRA “B” Workpapers, “I-Forms” workbook, “I-0S01.2” tab).


ALASKA AIR SUBSIDY

Alaska Bypass Service allows mailers to ship goods such as food and other cargo on pallets directly to rural customers in Alaska. Commercial airline carriers deliver goods on pallets to hub airports in either Anchorage or Fairbanks. Smaller airline companies or independent pilots then break down these pallets and deliver the goods to remote communities accessible only by air, which are commonly called bush sites. The shipped goods “bypass” the Postal Service’s network.

With Alaska Bypass Service, the Postal Service pays for the cost of air transportation from hub airports to bush sites. The difference between this cost of air transportation from hub airports to bush sites and the average cost of ground transportation if it were available is called the Alaska Air Subsidy. The Commission previously concluded that the Alaska Air Subsidy is part of the USO. The Alaska Air Subsidy increased from $120 million in FY 2018 to $135 million in FY 2019.

GROUP E POST OFFICE BOXES

Group E Post Office Boxes are provided free of charge to customers when the Postal Service does not offer carrier delivery to their physical address. To meet its USO delivery obligation, the Postal Service makes Group E Post Office Boxes available “for the purpose of resolving potential discrimination issues arising from instances in which the Postal Service chooses to provide, or not to provide, customers with a carrier delivery option.” In FY 2011, the Commission approved treating the cost of providing Group E Post Office Boxes as an institutional cost to more equitably distribute the USO Cost. The Commission also concluded that this treatment was analogous to, and consistent with, the treatment of the Alaska Air Subsidy.

Consequently, the Commission included the cost of Group E Post Office Boxes, which are primarily facility-related, in estimating the USO Cost. In FY 2019, servicing Group E Post Office Boxes cost approximately $35 million.

Free or Reduced Rates

The Commission must estimate the costs incurred by the Postal Service in providing “free or reduced rates for postal services as required by [Title 39.]” The Commission estimates these costs by combining preferred rate discounts net of costs and the negative contribution of Periodicals (Periodicals Losses). Table IV-4 shows the estimated revenue not received as a result of preferred rate discounts and Periodicals Losses between FY 2015 and FY 2019.

PREFERRED RATE DISCOUNTS NET OF COSTS

39 U.S.C. § 3626 requires the Postal Service to provide reduced rates for preferred rate categories in USPS Marketing Mail, Periodicals, and Library Mail. The Commission determines estimated revenue not received by quantifying the difference in revenue between mail that is statutorily required to receive a discount and the revenue the Postal Service would have received if those mailpieces were not discounted. This increase in revenue is adjusted for potential decreases in costs. If not discounted, rates for these mailpieces would be higher, resulting in a loss of volume and, consequently, lower costs. In FY 2019, preferred rate discounts net of costs were $1.215 billion.
PERIODICALS LOSSES

Periodicals Losses are the annual amount by which Periodicals’ attributable cost exceeds revenue.\textsuperscript{439} The PAEA’s price cap does not allow the Postal Service to fully recover Periodicals Losses through rate increases.\textsuperscript{440} It is assumed that, if not for the price cap, the Postal Service would raise Periodicals rates to the level necessary to cover attributable cost. Accordingly, the Commission considers these losses to be part of the USO Cost.

Table IV-4 illustrates that although there was some variation year-to-year, Periodicals Losses were about half a billion dollars each year between FY 2015 and FY 2016, and increased from $614 million in FY 2018 to $671 million in FY 2019. This shortfall represents 56 percent of Periodicals revenue in FY 2019. Revenue from Periodicals only covered 64 percent of the attributable cost of the Periodicals class.

The Periodicals class has not covered its attributable cost since the PAEA was enacted.\textsuperscript{441} The Commission recently took steps to address this issue by finalizing rules adopting changes to the regulations governing the Market Dominant Rate System.\textsuperscript{442} Specifically, for non-compensatory mail classes such as Periodicals, the final rules provide the Postal Service an additional 2 percentage points of rate authority per class per fiscal year.\textsuperscript{443} Similar to CPI-based rate authority, if all of this authority is not immediately used it may be banked for use in future years.

Also, in the FY 2019 ACD, the Commission directed the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2020 ACR and include an analysis of how the pricing in Docket No. R2020-1 impacted the cost, contribution, and revenue of Periodicals in FY 2020, and whether the new pricing improved the efficiency of Periodicals pricing in FY 2020.\textsuperscript{444}

Table IV-4: Estimated Revenue Not Received Due to Free or Reduced Rates ($ Millions)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Rate</td>
<td>1,215</td>
<td>1,172</td>
<td>1,104</td>
<td>1,105</td>
<td>1,116</td>
</tr>
<tr>
<td>Discounts Net of Costs\textsuperscript{a}</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Periodicals Losses</td>
<td>671</td>
<td>614</td>
<td>609</td>
<td>537</td>
<td>512</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,886</td>
<td>1,786</td>
<td>1,713</td>
<td>1,642</td>
<td>1,628</td>
</tr>
</tbody>
</table>

\textsuperscript{a}The FY 2018 and FY 2019 Preferred Rate Discounts Net of Costs figures include In-County Periodicals. At the time of the USO Report, In-County Periodicals had little impact on the results of that analysis and were not included. See USO Report, Appendix F, Section 3 (Robert H. Cohen and Charles McBride, “Estimates of the Current Costs of the USO in the U.S.” at 18-19, n.20).
Other Public Services or Activities

The Commission must estimate the costs incurred by the Postal Service in providing “other public services or activities which, in the judgment of the Postal Regulatory Commission, would not otherwise have been provided by the Postal Service but for the requirements of law.” These costs include the costs of providing Six-Day Delivery (rather than Five-Day Delivery), uniform rates for First-Class Mail and Media Mail/Library Mail, and the net cost of the Postal Inspection Service. Table IV-5 shows the costs of providing these public services or activities from FY 2015 to FY 2019.

SIX-DAY DELIVERY

Since 1984, appropriations bills have included a provision requiring the Postal Service to continue providing Six-Day Delivery. The cost of providing Six-Day Delivery is measured as the estimated savings the Postal Service would achieve by providing residential delivery service 5 days a week instead of 6 days a week. Table IV-5 shows the cost of Six-Day rather than Five-Day Delivery from FY 2015 to FY 2019. In FY 2019, the estimated cost of providing Six-Day Delivery was approximately $2.231 billion, a slight decrease from the estimated FY 2018 cost of $2.259 billion.

UNIFORM RATES

Rates for First-Class Mail must be uniform throughout the United States. To determine the cost of uniform First-Class Mail rates, the Commission estimates the increased contribution that the Postal Service would earn if dropship discounts were allowed for workshared First-Class Mail. Table IV-5 shows the estimated cost of uniform First-Class Mail rates. The estimated cost of uniform First-Class Mail rates decreased from $99 million in FY 2018 to $86 million in FY 2019.

Media Mail/Library Mail rates must be uniform for mail of the same weight and must not vary with the distance transported. The Commission estimates the cost of the distance component by assuming that without this requirement, Media Mail/Library Mail would provide the unit contribution of Bound Printed Matter, a proxy that does not have this restriction. The Commission estimates the additional unit contribution by determining the
difference between the unit contributions of Bound Printed Matter and Media Mail/Library Mail. Media Mail/Library Mail total volumes are then multiplied by the estimated additional unit contribution to produce an estimate of the total additional contribution if Media Mail/Library Mail rates were not uniform.

POSTAL INSPECTION SERVICE

In the FY 2019 Annual Report, the Commission began including the net cost of the Postal Inspection Service in the estimated cost of the USO as an “other public service or activity” under 39 U.S.C. § 3651(b)(1)(C). The Postal Inspection Service enforces over 200 federal laws that relate to crimes involving the postal system, its employees, and its customers. The mission of the Postal Inspection Service is “to support and protect the [Postal Service] and its employees, infrastructure, and customers; enforce the laws that defend the nation’s mail system from illegal or dangerous use; and ensure public trust in mail.” Law enforcement activities of the Postal Inspection Service involve defending the nation’s mail from illegal or dangerous use by, for example, combatting illegal narcotics, mail fraud, and mail and package theft. The costs of the Postal Inspection Service are partially offset by fines collected and restitution, which are subtracted from the total cost to calculate the net cost. In FY 2019, the net cost of the Postal Inspection Service was approximately $471 million, a slight increase from the estimated FY 2018 net cost of $462 million.

Value of the Postal Monopoly

The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes. The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence. The combined letter and mailbox monopolies are together referred to as the postal monopoly. The Annual Report includes estimates of both the value of the postal monopoly and the value of the mailbox monopoly alone.

The value of the postal monopoly is an estimate of the profit that the Postal Service would potentially lose if both the mailbox and letter monopolies were lifted and the Postal Service was subject to competition for mail currently covered by the postal monopoly.

The value of the mailbox monopoly is estimated based on contestable mail volumes in Periodicals, select USPS Marketing Mail prepared in carrier route sequence, and Parcel Select. Changes in the volume of contestable mail affect the number of profitable routes the competitor could deliver to and the amount of profit the Postal Service would lose if the competitor captured the contestable mail on those routes.

On October 1, 2019, the Commission initiated a public inquiry in Docket No. PI2020-1 and requested suggestions for modifications and enhancements to the current estimation methodology to account for recent Postal Service data changes as well as for any other aspects of the letter and mailbox monopolies (postal monopoly) estimation methodology. The Commission received six comments from postal stakeholders and is currently considering comments received and the most appropriate revisions to the methodology. The Commission uses the model described in the USO Report to update current estimates.
“win” or “skim” all of the contestable mail on a route if the revenue it would earn from these mail volumes is greater than the fixed and attributable costs related to the volumes. The model also assumes the competitor would deliver only local and regional mail to focus on the most profitable delivery routes and avoid the need for significant capital to establish a processing and transportation network.

Even with the postal monopoly, competitors still deliver material (e.g., newspapers’ weekly advertising supplements) that might otherwise be sent via the Postal Service. If the mailbox monopoly alone were lifted, competitors could deliver and deposit into mailboxes products that fall outside of the letter monopoly, such as Periodicals, unaddressed saturation mail, catalogs over 24 pages, and letters over 12.5 ounces. The letter monopoly prevents competitors from delivering certain mail that is directed to a specific person or address, such as First-Class Presorted Letters/Postcards and USPS Marketing Mail Letters. If the letter monopoly were also lifted, this restriction would not apply.

The model currently evaluates the competitor’s entry for each route regardless of the extent of route clustering. Focusing on routes in the same cluster or area would reduce the competitor’s fixed costs.\textsuperscript{461} Also, because the model assumes that the competitor does not incur mail processing costs, values of the postal and mailbox monopolies do not reflect the cost of sorting to carrier routes, which is necessary to deliver mail presorted to the 5-digit ZIP Code. The model also does not account for mailers’ switching costs or brand loyalty.\textsuperscript{462} In addition, bulk parcels, which are Competitive products, are considered contestable mail.

Previous Annual Reports presented only estimates of the postal and mailbox monopolies based on the same assumed mid-range (base case model) values for four key variables: (1) the volumes that an entrant could contest; (2) the entrants’ costs; (3) the entrants’ delivery frequency; and (4) the discount that the entrant offers to entice customers. The base case model for calculating both estimates of the postal and mailbox monopolies assumes that an entrant would offer a 10 percent discount, have a 10 percent cost advantage (be 10 percent more efficient), and skim 100 percent of the contestable mail on profitable routes.\textsuperscript{463} The FY 2015 through FY 2019 postal and mailbox monopoly estimates calculated using the base case model assumptions are presented in Table IV-6.

\textbf{Table IV-6: Base Case Model Values of the Postal and Mailbox Monopolies}\textsuperscript{464} ($ Billions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2019\textsuperscript{*}</th>
<th>FY 2018\textsuperscript{*}</th>
<th>FY 2017</th>
<th>FY 2016</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Monopoly</td>
<td>4.72</td>
<td>4.53</td>
<td>5.34</td>
<td>5.68</td>
<td>5.45</td>
</tr>
<tr>
<td>Mailbox Monopoly</td>
<td>0.94</td>
<td>1.03</td>
<td>1.35</td>
<td>1.24</td>
<td>1.03</td>
</tr>
</tbody>
</table>

\textsuperscript{*} FY 2018 and FY 2019 values are not comparable to values from FY 2015 through FY 2017. FY 2019 and FY 2018 values account for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the City Carrier Cost System and the Rural Mail Count and Rural Carrier Cost System. Without these implemented changes to the FY 2019 and FY 2018 monopoly calculation methodology, the postal monopoly estimates for FY 2019 and FY 2018 would be over $5 billion. The development of the postal and mailbox monopolies estimates for FY 2017 and earlier are consistent with the original methodology that included First-Class Presort Parcels with First-Class Presort Letters and First-Class Presort Flats. City carrier and rural carrier delivered mail volumes were not adjusted to respective fiscal year national estimates.
This year, the Commission also presents the FY 2019 estimates of the postal and mailbox monopolies based on alternative assumed values (“low” and “high” models) for the four key variables (in addition to the assumed base case model mid-range values).

Table IV-7 illustrates the impact on the FY 2019 monopoly estimates given variations in the assumptions of the four key variables: (1) the amount of discount offered by the entrant, (2) the entrant’s cost advantage, (3) the number of delivery days, and (4) the percentage of contestable mail skimmed on profitable routes.

The monopoly estimates calculated using the “low” and “high” values of the four key variables are unlikely to represent the actual value of the monopolies, but may be helpful to conceptualize the lower and upper bounds of reasonable estimates. Given the uncertain nature of how competition would evolve in the absence of the postal and mailbox monopolies, variations in the assumptions are possible. Table IV-7 illustrates the sensitivity of the monopoly estimates to potential changes in the key model input variables’ values.

| Table IV-7: FY 2019 Value of the Postal and Mailbox Monopolies ($ Billions) |
|------------------|------------------|------------------|
| **Postal Monopoly** | **Low** | **Base Case** | **High** |
|                  | 0.18<sup>a</sup> | 4.72<sup>b</sup> | 9.28<sup>c</sup> |
| **Mailbox Monopoly** | 0.03<sup>d</sup> | 0.94<sup>e</sup> | 2.02<sup>f</sup> |

<sup>a</sup> Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%
<sup>b</sup> Discount 10%, Delivery Days 3, Entrant’s Cost Advantage 10%, Contestable Volume 100%
<sup>c</sup> Discount 0%, Delivery Days 1, Entrant’s Cost Advantage 30%, Contestable Volume 150%
<sup>d</sup> Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%
<sup>e</sup> Discount 10%, Delivery Days 1, Entrant’s Cost Advantage 10%, Contestable Volume 100%
<sup>f</sup> Discount 0%, Delivery Days 1, Entrant’s Cost Advantage 30%, Contestable Volume 150%

The estimates of the postal and mailbox monopolies were also developed using the low and high model assumptions that were last calculated in 2008 when the USO Report was issued. In the USO Report, the mid-range values of the base case model were believed to be realistic ranges for the four key model input variables. As compared to the postal monopoly estimates in the USO Report, the largest dollar change in the estimated FY 2019 postal monopoly values are in the “high” model estimates ($7.10 billion in the USO Report versus $9.28 billion in FY 2019) and the base case model estimates ($3.43 billion in the USO Report versus $4.72 billion in FY 2019). Increases in the amount of USPS Marketing Mail 5-digit automation letters entered at destination Sectional Center Facilities since the USO Report was issued contributed to the larger postal monopoly estimates using the base case model and “high” model assumptions in FY 2019.

As compared to the mailbox monopoly estimates in the USO Report, the FY 2019 estimates were lower for all key variable assumption scenarios due to decreases in the total amount of contestable USPS Marketing Mail Enhanced Carrier Route mail since the USO Report was issued.
Consumer Relations —
Comments and Inquiries

Inquiries by Source

In Fiscal Year 2020, PAGR received a total of 6,435 comments and inquiries. The greatest portion of inquiries, questions, suggestions, and comments were received by phone and through the online “Contact PRC” link on the Commission’s website. The remaining correspondence was submitted by fax, email, and hardcopy mail.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact</td>
<td>2,036</td>
<td>941</td>
<td>1,176</td>
<td>2,282</td>
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<td>Email</td>
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<td>1,013</td>
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<td>5,926</td>
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<td>Phone</td>
<td>58</td>
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<td>327</td>
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<td>Letters</td>
<td>42</td>
<td>35</td>
<td>64</td>
<td>41</td>
<td>182</td>
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</tbody>
</table>
Commission Order No. 195 directs the Postal Service to respond to rate and service inquiries forwarded to its Office of the Consumer Advocate within 45 days. The order also requires the Postal Service to file a monthly report summarizing the general nature of these inquiries. The reports are available on the Commission’s website.

Inquiries by Issue

Consistent with the prior reporting, missing packages, delayed, misdelivered, and undelivered mail remain the leading complaint types. There was also a slight increase in inquiries related to collection box schedules.

Inquiries by Location

In FY 2020, the Postal Service was separated geographically by 7 area offices, and 70 district offices. A review of the inquiries referred to the Postal Service for escalated resolution revealed that an above average number originated in the Greater Indiana, Chicago, Capital, and Gulf Atlantic Districts.

<table>
<thead>
<tr>
<th>District</th>
<th>Number Received</th>
<th>Top Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Indiana</td>
<td>35</td>
<td>Collection Box Schedule</td>
</tr>
<tr>
<td>Chicago</td>
<td>29</td>
<td>Collection Box Schedule</td>
</tr>
<tr>
<td>Capital</td>
<td>23</td>
<td>Missing Packages</td>
</tr>
<tr>
<td>Gulf Atlantic</td>
<td>19</td>
<td>Carrier not delivering mail</td>
</tr>
<tr>
<td>Atlanta</td>
<td>14</td>
<td>Delayed Packages</td>
</tr>
<tr>
<td>Lakeland</td>
<td>14</td>
<td>Collection Box Schedule</td>
</tr>
<tr>
<td>Colorado/Wyoming</td>
<td>12</td>
<td>Carrier not delivering mail</td>
</tr>
<tr>
<td>South Florida</td>
<td>11</td>
<td>Carrier suspended delivery</td>
</tr>
<tr>
<td>Triboro</td>
<td>11</td>
<td>Misdelivered Mail</td>
</tr>
<tr>
<td>Northern New Jersey</td>
<td>10</td>
<td>Carrier not delivering mail</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Issue</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection Box Schedule</td>
<td>44</td>
</tr>
<tr>
<td>Delayed Mail</td>
<td>38</td>
</tr>
<tr>
<td>Missing Packages</td>
<td>31</td>
</tr>
<tr>
<td>Misdelivered Mail</td>
<td>20</td>
</tr>
<tr>
<td>Undelivered Mail</td>
<td>17</td>
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<tr>
<td>Employee Behavior</td>
<td>15</td>
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<tr>
<td>Retail Lobby</td>
<td>14</td>
</tr>
<tr>
<td>Mailbox Requirement</td>
<td>14</td>
</tr>
<tr>
<td>Missing Mail</td>
<td>14</td>
</tr>
<tr>
<td>Carrier Suspended Delivery</td>
<td>11</td>
</tr>
</tbody>
</table>
The Office of the Secretary and Administration (OSA) ensures that the Commission has the physical, financial, technological, and human capital infrastructure needed to accomplish its mission. The work of OSA is directly tied to the Commission’s Strategic Plan, particularly to Goal 3 (provide an optimal internal infrastructure to support management of priorities, workload, and emerging requirements) and Goal 4 (recruit, develop, and retain a diverse, high-performing workforce). Responsibilities include financial management, records management, human resources management, information technology, equal employment opportunity, and administrative support.
Financial Management

The Commission continues to cost-effectively and efficiently work within its budget. The Commission’s FY 2020 appropriation was $16,615,000. In FY 2020, personnel compensation accounted for 80 percent of expenditures, rent accounted for 13 percent of expenditures, and the remaining 7 percent of expenditures was for all other operating expenses including IT and communications. Figure VI-1 below shows the distribution of the Commission’s expenditures for FY 2020.

![Figure VI-1: Postal Regulatory Commission, FY 2020 Annual Budget Expenditures](image)

Records Management

In FY 2020, the Commission was committed to transparency, accountability, and open government through the administration of its records management program, including dockets, FOIA, and data governance. The Commission hosted a technical conference via video conferencing during the pandemic and posted the audio recording on the Commission’s website, www.prc.gov.

During the course of FY 2020, the Commission opened and reviewed 570 new dockets — an almost 25 percent increase over last year’s total — and processed 3,691 documents. FOIA requests are now primarily handled by the Office of the
General Counsel; all FOIA requests received responses within statutory deadlines in FY 2020. The Commission is in the process of developing a new electronic document system and implementing updated policies, which include aligning temporary and permanent electronic records with approved records schedules. Records management and data governance is of heightened importance in a remote work environment, so training for staff is under review, as is the Commission’s oversight of privacy issues.

Human Resources Management

The Commission’s workforce is its primary asset, and Goal 4 of the 2017-2022 Strategic Plan affirms its commitment to enhancing a system that fosters recruitment, development, and retention of a talented, skilled, diverse, and adaptable workforce.

The Commission offers a flexible workplace, and provides the ability for employees to participate in its Alternative Work Schedule program and Telework program. During FY 2020, thirty-five percent of Commission staff participated in the Alternative Work Schedule program. Both situational and ad-hoc telework are integral parts of the Commission’s continuity of operations plan to ensure the Commission’s continued functioning during government closure or delay. Prior to the pandemic declaration in mid-March of 2020, 26 percent of Commission staff participated in situational telework, and a majority — 60 percent — teleworked on a regularly scheduled basis. After the pandemic declaration, the Commission converted quickly — within a week — to 100 percent telework, and staff continued to work remotely, and effectively, throughout the fiscal year.

The Federal Employee Viewpoint Survey (FEVS) was developed by OPM to gauge how employees feel about their work environment. Although the results of the FY 2020 FEVS have been delayed due to the impact of the pandemic, the Commission has received high overall Employee Engagement Index scores and consistently shown that the employees rank the Commission as one of the best place to work in the Federal government.

Equal Employment Opportunity and Diversity

In FY 2020, the Commission continued its commitment to equal employment opportunity (EEO) in its initiatives to recruit, develop, and retain a skilled, high-achieving, and diverse workforce. Women and minorities accounted for 57 percent and 32 percent, respectively, of its workforce. Women filled 43 percent of the agency’s executive positions. In FY 2020, the Commission also established a Diversity & Inclusion Committee, whose mission is to support the Commission’s commitment to equal opportunity employment, facilitate the development and advancement of women and minorities, increase awareness of the diverse communities represented at the Commission, and provide events and activities that support the goal of a diverse and inclusive community. Over the course of FY 2020, the Commission had zero EEO complaints (formal and informal) filed.
Information Technology

In response to new and emerging security threats, the Commission is enhancing its security practices and policies to better protect sensitive information, as well as to educate employees about the importance of safeguarding the Commission's IT infrastructure, applications, and data. During FY 2020, the Commission hired a new cybersecurity manager, who then initiated a security assessment of the agency’s general support system. Going forward, the Commission will prioritize and address these security findings, specifically focusing on high-risk areas of concern, and will take the appropriate steps to improve the Commission’s security program. This assessment will also inform the Commission's privacy program development.

The Commission is pleased to report that during FY 2020, there were no major security incidents to report nor any major incidents related to personally identifiable information (PII). In addition, the Commission updated and improved its Continuity of Operations Plan and developed a Pandemic Response Plan in response to the impact of the COVID-19 pandemic; both plans were created to ensure the continuity of the Commission’s essential functions across a wide range of potential emergencies. The Commission continues to collaborate with the Department of Homeland Security (DHS) to identify and address risks, and to improve its cybersecurity posture.
Endnotes

2 This number does not include amendments or modifications to existing NSAs.
5 39 U.S.C. § 3642(b)(1). “Product” means “a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.” Id. § 102(6).
6 39 U.S.C. § 3642(b)(1). Market Dominant products are grouped within 5 classes of mail: First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services. Id. § 3621(a).
13 Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017 (Order No. 4257). This order was appealed to the United States Court of Appeals for the District of Columbia. See “Court of Appeals Cases” section below.
14 Order No. 4257 at 17.
15 Id. at 22-23.
16 Id. at 3-4.
17 Id. at 48.
18 Id. at 148.
19 Id. at 248.
20 Id. at 4-5, 250.
22 Order No. 4258 at 34.
23 Id. at 38-45, 46-73.
24 Id. at 76-77, 84-85. Non-compensatory products do not cover their attributable costs.
25 Id. at 93-96. Passthroughs represent the relationship between the amount of the workshare discount and the avoided cost as a percentage. A workshare discount’s passthrough percentage is determined by dividing the workshare discount by costs avoided and expressing the result as a percentage.
26 Id. at 77, 98-106.
30 Order No. 5763 at 72-73.
31 Id. at 100-101. By calculating the retirement-based rate authority as a percentage of total revenue (as opposed to as a percentage of Market Dominant revenue), the mechanism does not burden users of Market Dominant products with the entire amount of the retirement amortization payments. Order No. 5337 at 93. Revenue generated by this mechanism must be applied to amortization payments as computed by the Office of Personnel Management. Id. at 95-96.
32 Order No. 5763 at 100.
33 Id. at 21.
34 Id.
35 Id. Specifically, when filing the Annual Compliance Report, the Postal Service must “provide the input data and calculations used to produce the annual [Total Factor Productivity] estimates, and provide a description of and reason for any changes to the service standards (including relevant business rules), or certify that no changes have occurred.” Id.
36 Id. at 159-160, 190-191.
37 Id. at 196.
38 Id. at 182.
39 Id. at 186.
40 Id. at 198.
41 Id. at 19.
42 Id. Specifically, a low workshare discount or an excessive workshare discount would be permitted if it were new, if it would represent an improvement of 20 percent over the existing workshare discount passthrough, or if it were set in accordance with a prior Commission order (via the proposed waiver process). Id. at 199. A low workshare discount would also be permitted if the proposed workshare discount would produce a passthrough of at least 85 percent. Id. Additionally, an excessive workshare discount would be permitted if it were provided in connection with a subclass of mail (product), consisting exclusively of mail matter of educational, cultural, scientific, or informational value (39 U.S.C. § 3622(e)(2)(C)) and accompanied by certain information to ensure transparency. Id.
43 Id. at 200.
44 Id. at 228.
45 Id.
46 Id. at 24, 265.
47 Id. at 242.
48 Id. at 242-244.
49 Id. at 23, 267.
50 Id. at 267.
52 Order No. 5229 at 10.
53 Id. at 12-13.
54 Id. at 13-14.
55 Id. at 14-15.
56 Id. at 15.
57 Id. at 20, 41, and 45.
58 Id. at 15-16.
59 Id. at 16-17.
60 Id. at 18.
64 Order No. 5433 at 2.
65 39 C.F.R. §§ 3030.501(g), 3030.523(e)(2)(iii). The other requirements are that the rate incentive is in the form of a discount or can be easily translated into a discount and that sufficient billing determinants are available for the rate incentive to be included in the percentage change in rate calculation. Id. § 3030.523(e)(2).
66 Order No. 5433 at 1, 8.
67 Id. at 1-2, 8.
68 Id.
72 Docket No. RM2020-5, Notice of Intent to Reconsider, August 26, 2020 (Order No. 5655).
73 Order No. 5655 at 2.
74 Id.
75 Id.
76 Id.
77 Id.
81 Order No. 5422 at 2.
83 Order No. 5422 at 4, 7-8.
86 Order No. 5353 at 3.
90 Docket No. RM2020-8, Notice of Update to Product Lists, April 16, 2020, at 1. The Commission previously published the product list updates in Docket Nos. MC2010-21 and CP2010-36. Id. at 1-2.
91 Id. at 2.
92 Id.
93 Id.
94 Id. at 3; see Mail Classification Schedule (MCS), available at: https://www.prc.gov/mail-classification-schedule (accessed November 9, 2020).
96 Order No. 5257 at 3.
99 Id. § 3652(a)(2), (b), (c).
100 Id. § 3652(a).
101 These reports are on the Commission’s website, available at: https://www.prc.gov/prc-reports.
102 39 U.S.C. § 3653(a), (b).
105 FY 2019 ACD at 12.
106 Id. at 1. Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform. Id. at 12. These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. Id.
107 Id. at 1.
108 Id. at 2.
110 FY 2019 ACD at 2, 32.
111 Id. at 32.
112 Id. at 43, 46.
113 Id. at 52.
114 Id.
115 Id. at 3. The UPU consists of 192 member countries, including the United States, that negotiate international agreements governing the exchange of international mail, including applicable rates for delivery. Id. at 52 n. 94.
116 Id. at 66.
117 Id.
118 Id. at 67.
These products were two domestic negotiated service agreements (NSAs), International Priority Airmail, International Money Transfer Service—Inbound, Royal Mail Group Inbound Air Parcel Post Agreement, and Inbound Competitive Multi-Service Agreements with Foreign Postal Operators.1

For example, the Commission recommended that “the Postal Service establish a specific plan to achieve its productivity targets for each flat-shaped mail processing machine, and continue to provide estimates of the impact of changing productivities on the mail processing costs of flat-shaped mail products in FY 2020.”  Id. at 168-169.


Id. at 2, 5. This decline was mostly driven by an increase in the non-cash adjustment to the workers’ compensation expense due to a lower discount rate. Id. at 2.

Id.

Postal Service FY 2019 Form 10-K at 52.

Id. at 39.

Id.


Id. at 6.

Id.


Id.


FY 2019 Analysis at 7-21.

Id. at 9.

Id. at 9-11.

Id. at 9. 15-16.

Id. at 23. The Postal Service partially met the Excellent Customer Experiences and Safe Workplace and Engaged Workforce performance goals, but did not meet the High-Quality Service and Financial Health performance goals. Id.

Id. at 24-97.

39 C.F.R. § 3010.101(q).


Id.


Docket No. R2020-1, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2019 (Order No. 5321).

Docket No. R2020-1, Order Remanding Price Adjustments for First-Class Mail, November 13, 2019, at 2 (Order No. 5302). The Commission found that the Postal Service made impermissible adjustments to the billing determinants related to Inbound Letter Post. Order No. 5302 at 2. As a result, the Postal Service incorrectly calculated the percentage change in rates for First-Class Mail to be 1.926 percent. Id. Using the Postal Service’s planned First-Class Mail prices, the Commission calculated the proposed percentage change in rates to be 2.109 percent, which exceeded the total price adjustment authority of 1.933 percent. Id.


Docket No. R2020-1, Order on Amended Price Adjustments and Classification Changes for First-Class Mail, December 6, 2019 (Order No. 5340).

Order No. 5340 at 3-4. These issues include consistency with the PAEA’s objectives and factors, billing determinant adjustments, unused rate adjustment authority for First-Class Mail, the Postal Service’s request to accelerate the transfer of certain international mail products, and comments received. Id.


403  Id. at 2.
404  Id. at 2-3.
407  Petitioners’ Motion to Recall the Mandate, Elaine Mittleman v. Postal Reg. Comm’n, Nos. 12-1095, 12-1110, and 12-1157 (D.C. Cir. filed September 25, 2020); Respondent’s Opposition.
410  39 U.S.C. § 407(b)(1)).
413  Docket No. IM2020-1, Notice of Filing Correspondence, March 9, 2020; Letter from Nerissa J. Cook, Deputy Assistant Secretary, United States Department of State, Bureau of International Organization Affairs, to Robert G. Taub, Chairman, Postal Regulatory Commission, March 6, 2020.
416  Docket IM2020-1, Notice of Filing Correspondence, April 21, 2020.
417  On October 29, 2020, the UPU decided to maintain Abidjan, Côte d’Ivoire as the host city for the 27th Congress in August 2021, as long as the Ivorian Government maintained its firm and unequivocal commitment to host the event once the situation returned to normal. The UPU also decided that, in the event the 27th Congress could not be held in Côte d’Ivoire, it would be convened in Switzerland no later than September 2021. The Commission will set the new comment deadline once the specific dates are confirmed. See https://www.upu.int/en/Press-Release/2020/10/UPU%E2%80%99s-27th-Universal-Postal-Congress-moved-to-August-2021.
419  See Postal Regulatory Commission, Annual Report to the President and Congress Fiscal Year 2016, January 12, 2017, at 42.
420  Leave replacement refers to “[a] noncareer hourly rate employee who performs as a relief or leave replacement during the absence of a postmaster in a small [p]ost [o]ffice.” See Glossary of Postal Terms, supra note 175.
423  Docket No. RM2016-15, Order Approving Analytical Principles Used in Periodic Reporting (Proposal One), November 24, 2016, at 1 n.2 (Order No. 4603).
424  39 U.S.C. § 3651(b)(1)(A). 39 U.S.C. § 101(b) requires the Postal Service to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.” Id. § 101(b).
426  Id.
427  39 U.S.C. § 3651(b)(1). The Postal Service states that the main causes of higher air transportation costs in FY 2019 were higher air rates, higher volumes for certain carriers, and higher average jet fuel prices. United States Postal Service, 2019 Annual Report on Form 10-K, November 14, 2019, at 17.
428  The Commission is evaluating comments and suggestions for modifications and enhancements to the current estimation methodology to account specifically for recent Postal Service data changes and for any other aspects of the letter and mailbox monopolies (postal monopoly) estimation methodology. See Order No. 5260.
429  39 U.S.C. § 3622(c)(2)).
438  See Postal Regulatory Commission, Annual Report to the President and Congress Fiscal Year 2012, January 3, 2013, at 37
439  These losses were initially called “Losses on Market Dominant Products” in past Annual Reports. The Commission later clarified that the USO Cost only includes Periodicals Losses. Postal Service Commission, Annual Report to the President and Congress Fiscal Year 2012, January 3, 2013, at 37 n.3. Losses on other unprofitable Market Dominant products are not included because those products are in classes that were profitable overall. USO Report at 134. In FY 2019, the losses from Media Mail/Library Mail exceeded the contribution of the other products in Package Services, making the class unprofitable as a whole with a net contribution of negative $26.4 million. FY 2019 Financial Analysis, Appendix A. The methodology for estimating the cost of uniform rates for Media Mail/Library Mail captures this loss as part of the cost of that element of the USO. To avoid double counting, the loss is not listed separately here.
440  Periodicals is a preferred class of mail and receives several statutory discounts such as a 5 percent discount for nonprofit and classroom publications.
The Commission would need route-level geographic-specific data to account for clustering. Further improvements could be made by assuming the

See Order No. 5763; “Chapter III - Rulemakings Amending Commission Regulations” section above.

See Order No. 5763 at 159-160, 190-191. Order No. 5763 revised 39 C.F.R. part 3030 to create a new subpart for Non-compensatory Classes or Products. Id. at 370; id., Attachment at 38-39.

FY 2019 ACD at 2.


The methodology for calculating the current cost of Six-Day Delivery differs from the methodology applied in the USO Report in 2008 because it

reflects refined and more comprehensive costs based on the Commission’s findings in its Advisory Opinion on Elimination of Saturday Delivery. See


The decrease in the unit contribution of Media Mail/Library Mail in FY 2019 is due to the increase (8.6 percent) in the unit attributable cost for Media Mail/Library Mail in FY 2019. The slight increase in the unit revenue for Media Mail/Library Mail in FY 2019 was not enough to offset the larger increase in the unit attributable cost. See FY 2019 Financial Analysis at 66-67; Appendix A, at 1.

See FY 2019 Annual Report at 49.


Contestable mail is certain mail that is dropshipped to the processing facility or delivery unit closest to its destination.

See Order No. 5260; “Chapter III — Public Inquiries” section above.

See Docket No. Pi2020-1, Comments of the Association for Postal Commerce, November 1, 2019; Docket No. Pi2020-1, Comments of the Greeting Card Association, November 1, 2019; Docket No. Pi2020-1, Comments of the National Postal Policy Council, November 1, 2019; Docket No. Pi2020-1, Comments of the Public Representative, November 1, 2019; Docket No. Pi2020-1, Initial Comments of United Parcel Service, Inc. on Notice and Order Providing an Opportunity to Comment, November 1, 2019; Docket No. Pi2020-1, Initial Comments of the United States Postal Service, November 1, 2019.

See USO Report at 143-152.

The Commission would need route-level geographic-specific data to account for clustering. Further improvements could be made by assuming the competitor would design routes to more efficiently deliver the contestable mail. However, this would require information about volume delivered to each stop that is not currently available.

Although the model assumes a 10 percent discount would be necessary to entice customers to switch, brand loyalty, inertia, the need to prove quality, and other factors affect the pace at which customers would switch from the Postal Service to a competitor. The base case model assumes a competitor would capture 100 percent of the contestable mail on routes that are skimmed. See USO Report at 149. However, some customers may not switch to a competitor even if a discount were offered.

The base case model entrant delivery frequency differs for the postal and mailbox monopoly estimates calculation, i.e., assumed entrant delivery frequency for the postal monopoly estimate is 3 days a week and 1 day a week for the mailbox monopoly estimate.

 Subtracting the value of the mailbox monopoly from the value of the postal monopoly does not yield the value of the letter monopoly because there is an overlap in the contestable mail and a different frequency of delivery by the competitor. Without access to mailboxes, it is unlikely that the competitor could successfully capture mail directed to a specific person or address because those mailpieces are delivered to and collected from mailboxes. Therefore, a separate estimate of the value of the letter monopoly alone (retaining the mailbox monopoly) is not provided.

See USO Report at 144, Table 5 notes 2, 5; 143-146.

See notes to Table IV-7.

The FY 2019 estimates were calculated accounting for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the City Carrier Cost System and the Rural Mail Count and Rural Carrier Cost System.

See FY 2019 ACD at 25, 40-41. The Periodicals class is comprised of two products: In-County and Outside County. In-County is typically used by newspapers with smaller weekly circulations for distribution within county of publication. Outside County consists of publications with a wide variety of circulation sizes, distribution patterns, and frequency. FY 2019 Financial Analysis at 62. Both In-County and Outside County Periodicals average unit attributable costs increased significantly in FY 2019. Id. at 64.

See Order No. 5763, “Chapter III - Rulemakings Amending Commission Regulations” section above.

Order No. 5763 at 159-160, 190-191. Order No. 5763 revised 39 C.F.R. part 3030 to create a new subpart for Non-compensatory Classes or Products. Id. at 370; id., Attachment at 38-39.

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Although the model assumes a 10 percent discount would be necessary to entice customers to switch, brand loyalty, inertia, the need to prove quality, and other factors affect the pace at which customers would switch from the Postal Service to a competitor. The base case model assumes a competitor would capture 100 percent of the contestable mail on routes that are skimmed. See USO Report at 149. However, some customers may not switch to a competitor even if a discount were offered.

The base case model entrant delivery frequency differs for the postal and mailbox monopoly estimates calculation, i.e., assumed entrant delivery frequency for the postal monopoly estimate is 3 days a week and 1 day a week for the mailbox monopoly estimate.

 Subtracting the value of the mailbox monopoly from the value of the postal monopoly does not yield the value of the letter monopoly because there is an overlap in the contestable mail and a different frequency of delivery by the competitor. Without access to mailboxes, it is unlikely that the competitor could successfully capture mail directed to a specific person or address because those mailpieces are delivered to and collected from mailboxes. Therefore, a separate estimate of the value of the letter monopoly alone (retaining the mailbox monopoly) is not provided.

See USO Report at 144, Table 5 notes 2, 5; 143-146.

See notes to Table IV-7.

The FY 2019 estimates were calculated accounting for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year national estimates as estimated by the City Carrier Cost System and the Rural Mail Count and Rural Carrier Cost System.