



Postal Regulatory Commission

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Press Release

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PRC Directs USPS to Address Compliance Issues in FY 2017 *Annual Compliance Determination* Report shows progress in some areas and continued challenges in others

Washington, DC – The Postal Regulatory Commission (Commission) today issued its [Annual Compliance Determination](#) (ACD), a mandated assessment of the U.S. Postal Service's (Postal Service) compliance with pricing and service performance requirements in fiscal year 2017 (FY 2017). While the Commission acknowledges some areas of improvement, it identifies several compliance issues related to workshare discounts, noncompensatory Market Dominant products, Competitive products, service performance, and continued cost and service problems with flat-shaped mail (flats).

Workshare Discounts:

The Commission identified 42 workshare discounts with compliance issues. Out of the 42, 20 of the discounts did not comply with section 3622(e). No action by the Commission was required for 7 of the 20 workshare discounts because price changes aligned the discounts with avoided costs or the Postal Service eliminated the discount. Thirteen workshare discounts remained out of compliance prompting the Commission to direct the Postal Service to either align workshare discounts with avoided costs in the next Market Dominant price adjustment or specify an applicable statutory exception. The Postal Service did address the Commission's FY 2016 ACD directive to report on the cost and contribution impact of worksharing and progress in improving pricing efficiency. The Commission directs the Postal Service to continue reporting on Periodicals pricing issues in its FY 2018 *Annual Compliance Report* (ACR).

Noncompensatory Market Dominant Products:

The Commission identified 10 Market Dominant products that were Noncompensatory in FY 2017. For Periodicals In-County, Periodicals Outside County, and Standard Mail Flats, the Commission finds that additional transparency is necessary to hold the Postal Service accountable. For the Special Services product Money Orders, the Commission directs the Postal Service to investigate the accuracy of the costing methods. Regarding Inbound Letter Post, the Commission recommends that the Postal Service continue to pursue compensatory Universal Postal Union (UPU) terminal dues and pursue bilateral agreements with foreign postal operators that result in an improved financial position for the Postal Service. The Commission further directs the Postal Service to provide an update on its collection of accurate shape-based costing data. Additionally, the Commission found that the PHI NSA did not meet the criteria of section

3633(c)(10)(A) in contract year 2, prompting the Postal Service to suspend the agreement during contract year 3. If an amended contract is not in effect by June 30, 2018, the PHI NSA will remain suspended. For the remaining noncompensatory products, the Commission finds that the Postal Service is taking appropriate steps to improve cost coverage.

Competitive Products Revenues:

Seven Competitive products identified by the Commission did not cover attributable costs and, were found to be out of compliance with section 3633(a)(2). The Competitive products that did not cover attributable costs include four domestic NSAs, International Money Transfer Service—Outbound (IMTS—Outbound), International Money Transfer Service—Inbound (IMTS—Inbound), and International Ancillary Services. The Commission directs the Postal Service to take corrective action, including reporting on an investigation of cost estimates, reporting on the status of contract negotiations, and seeking authority to terminate or re-negotiate agreements.

Service Performance:

Despite improvements in service performance results in FY 2017 over FY 2016 for a majority of products, most products failed to meet their service performance targets in FY 2017. In particular, service performance targets were not met for all First-Class Mail products, both Periodicals products, USPS Marketing Mail High Density and Saturation Flats/Parcels, USPS Marketing Mail Flats, USPS Marketing Mail Every Door Direct Mail—Retail, Bound Printed Matter Flats, and Post Office Box Service. In response to a Commission directive in the FY 2016 ACD to provide specific information on First-Class Mail Single-Piece Letters/Postcards metrics as part of its FY 2017 ACR, the Postal Service provided data and narrative responses that improve visibility into service performance and the Postal Service's remediation strategy. The Commission directs the Postal Service to continue reporting specific information on First-Class Mail Single-Piece Letters/Postcards metrics within 90 days of the issuance of this report and as part of its FY 2018 ACR.

Cost and Service Problems with Flat-Shaped Mail:

The Commission continued to identify cost and service performance issues with flats, noting that the Postal Service does not have a comprehensive plan to measure, track, and report flats cost and service issues. As a result, the Commission finds that additional transparency is necessary in these areas to hold the Postal Service accountable. Further, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. From this data, the Commission will develop potential data enhancements and consistent reporting requirements that will be used to develop metrics to measure, track, and report the cost and service performance issues associated with flats.

As directed by statute, the ACD was prepared after a 90-day evaluation of the Postal Service's ACR and supplemental material, and evaluation of public comments. The full report, including an executive summary, is available on the Commission's website, www.prc.gov, along with related documents under Docket No. ACR2017.