



ANNUAL REPORT

TO THE PRESIDENT AND CONGRESS

FISCAL YEAR 2021

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Acronyms

ANPR		Advanced Notice of Proposed Rulemaking
ACD		<i>Annual Compliance Determination</i>
ACR		<i>Annual Compliance Report</i>
C.F.R.		Code of Federal Regulations
CAG		Cost Ascertainment Group
CHIR		Chairman's Information Request
CIR		Commission Information Request
CPI		Consumer Price Index
CY		Calendar Year
FEVS		Federal Employee Viewpoint Survey
FOIA		Freedom of Information Act
FSS		Flats Sequencing System
FY		Fiscal Year
IMb		Intelligent Mail barcode
IOCS		In-Office Cost System
MCS		<i>Mail Classification Schedule</i>
NPR		Notice of Proposed Rulemaking
NSA		Negotiated Service Agreement
PAEA		Postal Accountability and Enhancement Act
RRM		Return Receipt for Merchandise
SPM		Service Performance Management
SPR		Special Purpose Route
TACS		Time and Attendance Collection System
U.S.C.		United States Code
UPU		Universal Postal Union
USO		Universal Service Obligation



PRC | Mission, Vision, and Guiding Principles

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

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





Letter from the Chairman

January 2022

On behalf of the Postal Regulatory Commission, I am pleased to submit the Commission's Annual Report to the President and Congress. This report reflects the agency's primary activities over the past year. 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 and the value of the postal monopoly.

The Commission is charged with reviewing and approving Postal Service rates, reviewing formal and informal complaints, examining proposals for new products and services, and ensuring the Postal Service complies with Title 39.

In Fiscal Year 2021, the Commission issued critical rulemakings, notices, advisory opinions, and reports central to our role as regulator and the sustainability of the Postal Service. Notably, the Commission:

- Considered two Postal Service requests to 1) change service standards nationwide for First-Class Package Service, and 2) revise service standards for First-Class Mail and end-to-end Periodicals, as part of the Postal Service's high profile ten-year strategic plan. The Commission issued two advisory opinions clarifying the complex issues associated with the Postal Service's planned changes and examined the costs and benefits associated with the Postal Service's plans.
- Produced the Annual Compliance Determination, overseeing service and financial compliance by the Postal Service, as well as several other important annual reports including the Financial Analysis of the Postal Service financial results and 10-K Statement for FY 2020, and Analysis of the Postal Service's FY 2020 Annual Performance Report and FY 2021 Performance Plan.
- Presided over proceedings of proposed rate adjustments for Market Dominant and Competitive products and related classification changes.
- Adopted final rules to modify a decade-long rate-making system for Market Dominant mail classes which had failed to meet the goals for the system established by the PAEA. The Commission prevailed in court against a challenge by mailers to its determination.

As agency chair, it is one of my priorities to ensure that the Commission continues to expand our technology capabilities to support the use, visualization, and dissemination of data in support of the Commission's mission: to ensure transparency and accountability of the postal system and ensure a vital and efficient universal postal system. For example, in FY 2021, the Commission developed a plan to hire its first Chief Data Officer and establish a Data Governance Board to make data available to the public in machine-readable formats and manage data as a strategic asset to the nation. The Commission also began reorganizing its staff to launch a small data analytics group to examine the postal network, address system bottlenecks, and conduct specialized studies of postal costs. In addition, the Commission continued exploring ways to better visualize its data in order to make data more accessible and understandable for a broader range of stakeholders.

The activities described in this report reflect the work and dedication of the agency's staff and demonstrate our continued commitment to work with the President, Congress, the Postal Service, mailers, and the public as critical decisions are made to sustain a vibrant postal system.

Respectfully,

Michael Kubayanda

Michael M. Kubayanda
Chairman

CHAPTER I | Fiscal Year 2021 in Review

The activities and accomplishments highlighted in the Commission's *Annual Report to the President and Congress* demonstrate the agency's efficient use of limited resources to achieve its mission of ensuring transparency and accountability of Postal Service operations, as well as fostering a vital and efficient universal mail system. Notably, the Commission issued final rules adopting changes to the regulations governing the system for regulating rates and classes for Market Dominant products. This rulemaking was the Commission's top priority in FY 2021 and one of its Strategic Objectives. The rules are designed to address the systemic deficiencies in the ratemaking system identified by the Commission by helping the Postal Service to improve pricing efficiency; maintain financial health and target primary drivers of net losses; and set reasonable rates. The rules were recently upheld in their entirety by the D.C. Circuit Court following a challenge by mailers and others to the Commission's determination.

PHOTO COURTESY: YAYAERNST

The Commission also adjudicated two major nature of service cases and issued advisory opinions on the Postal Service's proposals to revise service standards for 38.5 percent of First-Class Mail and 7 percent of end-to-end Periodicals, as well as 36 percent of First-Class Package Service. The Commission's findings and recommendations will help the Postal Service better implement these proposed service standard changes.

In Fiscal Year 2021 and early FY 2022, the Commission engaged in other proceedings, including:

Rulemakings

- Initiated a proceeding to solicit public input on performance incentive mechanisms that would help the Postal Service maximize incentives to increase efficiency and reduce costs, maintain high-quality service standards, and assure financial stability (including retained earnings)
- Issued a supplemental Notice of Proposed Rulemaking (NPR) to initiate the Commission's third 5-year review of the institutional costs appropriate share requirement in 39 U.S.C. § 3633(b)
- Issued an NPR seeking public input on proposed regulations related to the letter monopoly

Rate Adjustments

The Commission expeditiously evaluated the Postal Service's proposed rate and classification adjustments for Market Dominant and Competitive products to ensure compliance with the PAEA and the Commission's regulations.

- Reviewed and approved two large scale rate adjustments for most Market Dominant products, along with related mail

Rate Adjustments (Cont.)

classification changes (MCS). In the second proposed rate adjustment, the Commission applied the new rules governing the system for regulating rates and classes for Market Dominant products

- Approved proposed rate adjustments for domestic and international Competitive products, along with related MCS changes
- Approved the Postal Service's proposals for a time-limited rate adjustment for Competitive domestic products and a classification change for Priority Mail Express
- Reviewed and approved 136 Competitive NSAs and 279 non-published rates contracts

Reports Required by the PAEA

The Commission published four significant reports in FY 2021:

- Annual Report to the President and Congress describing the Commission's operations, accomplishments, and activities as the Postal Service's regulator
- Annual Compliance Determination 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 2020 providing an in-depth analysis of the Postal Service's financial health
- Review of Postal Service FY 2020 Performance Report and FY 2021 Performance Plan evaluating whether the Postal Service met its performance goals

Public Inquiry Dockets

The Commission explored matters important to postal stakeholders in four public inquiry dockets related to service performance, the value of the postal and mailbox monopolies, the cost of the Universal Service Obligation, and exemptions to the letter monopoly.

In other proceedings, the Commission:

- Considered proposed changes to the Market Dominant and Competitive product lists and the MCS, including the Postal Service's request to transfer Bound Printed Matter Parcels to the Competitive product list
- Considered nine proposals to change analytical principles and issued final orders for seven of these proposals
- Estimated the cost of the Universal Service Obligation and the value of the postal monopoly
- Adjudicated three complaint cases, oversaw three market tests, and considered two Post Office closing appeals
- Provided views to the Secretary of State on three proposals for the 27th Universal Postal Union Congress
- Responded to more than 14,000 inquiries from the public related to proposed operational changes announced by the Postal Service—a 120 percent increase from FY 2020
- Processed 27 Freedom of Information Act requests
- Opened and reviewed 303 new dockets and processed a total of 4,353 filings

CHAPTER II | About the Commission



Above: Vice Chairwoman
Ashley Poling, Commissioner
Ann Fisher, Commissioner
Robert Taub, Chairman
Michael Kubayanda,
Commissioner Mark Acton

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



Michael M. Kubayanda | CHAIRMAN

President Joseph R. Biden, Jr. designated Michael M. Kubayanda chairman of the Commission in January 2021. Chairman Kubayanda was reappointed to the Commission on December 9, 2021, for a second term expiring November 22, 2026, following his renomination by President Biden and second unanimous confirmation by the United States Senate. He was named vice chairman in August 2019 and served in that position through the end of 2020. Prior to joining the Commission, Chairman 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 of 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 authored 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.



Ashley E. Poling | VICE CHAIRWOMAN

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.



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. Her experience with postal issues spans close to 3 decades. Commissioner Fisher spent 12 years 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. In this capacity, she served as the key Republican Senate aide responsible for overseeing the development of the Postal Accountability and Enhancement Act. Fisher also managed postal and federal employee issues for Senator Thad Cochran (R-MS) on the Senate Subcommittee on International Security and Proliferation. She began her career in the Senate serving as an economist on the Senate Small Business Committee for then-Chairman Larry Pressler (R-SD). Fisher additionally served as a government relations manager at the U.S. Postal Service headquarters in Washington under former Postmaster General William Henderson. Immediately prior to her designation as commissioner, Fisher was director of public affairs and government relations at the PRC. Commissioner Fisher's term expires October 14, 2024.



Robert G. Taub | COMMISSIONER

Commissioner Robert G. Taub was chairman of the Commission for more than 6 years. President Barack H. Obama designated him as agency head in December 2014, and he continued in that role until January 2021. 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. Commissioner Taub has 40 years of experience in public service at the local, state, and federal levels. When President Obama first appointed him to the Commission in October 2011, Commissioner 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. Commissioner 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.

Staff and Office Structure

Commission staff has expertise in law, economics, finance, statistics, and cost accounting.

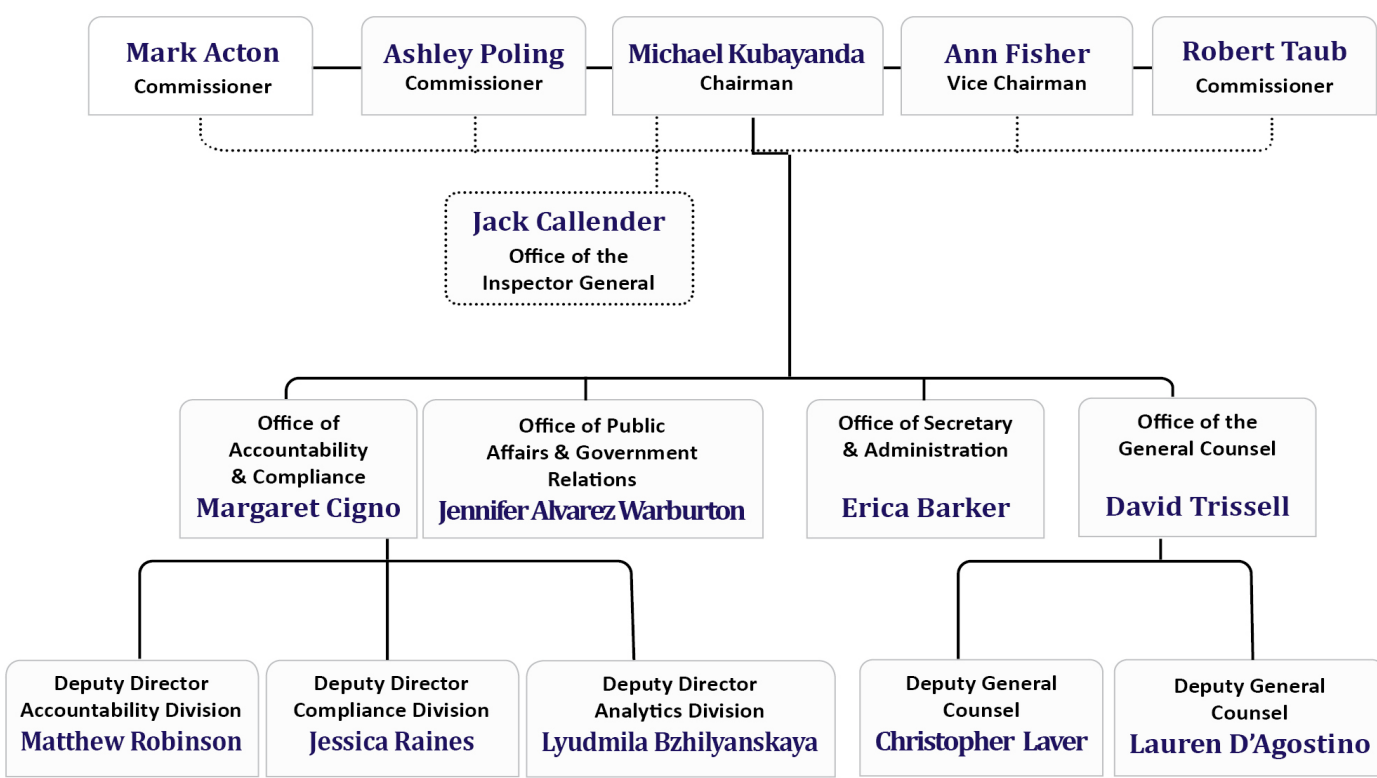
The Commission is organized into four operating offices:

- **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 current organizational structure.

Figure II-1: Organizational Structure



Commission Strategic Plan

The Commission's FY 2017-2022 *Strategic Plan* is the framework that guides the Commission's work and is a fundamental beacon for the Commission's efforts toward continuous improvement, efficiency, and effectiveness. The *Strategic 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 the 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 *Strategic Plan* also steers our commitment of Commission resources, ensuring that we utilize our small budget and personnel complement to achieve our 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. To further this goal, the Commission

conducted extensive regulatory work as detailed in Chapter III.

Strategic Goal 2 focuses on active engagement with Congress and stakeholders in support of a dynamic postal system. The Commission achieves 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. Also, in response to the impacts of the COVID-19 pandemic on Postal Service operations, PAGR has increased communication and active engagement about the postal system with the U.S. Congress, the Administration, the Postal Service, other government agencies, as well as with various media outlets.

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 pursuit of this goal, the Commission embarked on an aggressive IT modernization program which included transition to the cloud, a complete security assessment and authorization, and enhanced infrastructure and technology tools. The Commission continued its focus on enhancing its security posture in order to 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 has increased its hiring and successfully onboarded seven 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.

To assist in measuring the effectiveness of its *Strategic Plan* efforts, the Commission participates annually in the Federal Employee Viewpoint Survey (FEVS). In FY 2020, the Commission achieved a 94 percent response rate, an eighteen percentage point increase over the FY 2019 response rate. This response rate is fifty percentage points higher than the government-wide average response rate of 44 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—88 percent— continues to be among the higher ratings across the government.

Commission staff also report 100 percent satisfaction with the Commission's work-life programs and telework programs and high levels of global satisfaction compared to peers across the Federal government. The Commission uses FEVS to develop actionable plans to address issues raised in confidential feedback from employees.

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. 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 in order 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.

In FY 2022, the Commission will be revising its *Strategic Plan* and issuing a new and updated plan for the agency. The Commission's current *Strategic Plan*, in its entirety, can be viewed or downloaded at www.prc.gov.

CHAPTER III | FY 2021 Proceedings

The Postal Accountability and Enhancement Act (PAEA)¹ 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.).² These sections contain laws related to Market Dominant and Competitive products, respectively.³ 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.”⁴ Competitive products consist of all other products.⁵

The Annual Report must analyze the extent to which regulations are achieving the objectives under section 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 39 U.S.C. § 3622(b):

1. Maximize incentives to reduce costs and increase efficiency
2. Create predictability and stability in rates
3. Maintain high quality service standards established under 39 U.S.C. § 3691
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
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 products⁶

The Commission established regulations governing the Market Dominant Rate System in 2007 shortly after the PAEA was enacted.⁷ In FY 2021, the Commission completed 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.⁸ 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 2021 and early FY 2022.

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), which are listed at the beginning of this chapter. 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)." ⁹ 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.¹⁰ On December 1, 2017, the Commission issued Order No. 4257 containing its findings and determination of its review of the Market Dominant Rate System. ¹¹

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.¹² The Commission evaluated each principal area to determine whether the PAEA's goals were achieved during the PAEA era.¹³ The Commission found that while some goals of these principal areas were achieved, the Market Dominant Rate System as a whole did not achieve the objectives taking into account the factors of the PAEA. ¹⁴ The Commission identified key

issues with the Market Dominant Rate System, including:

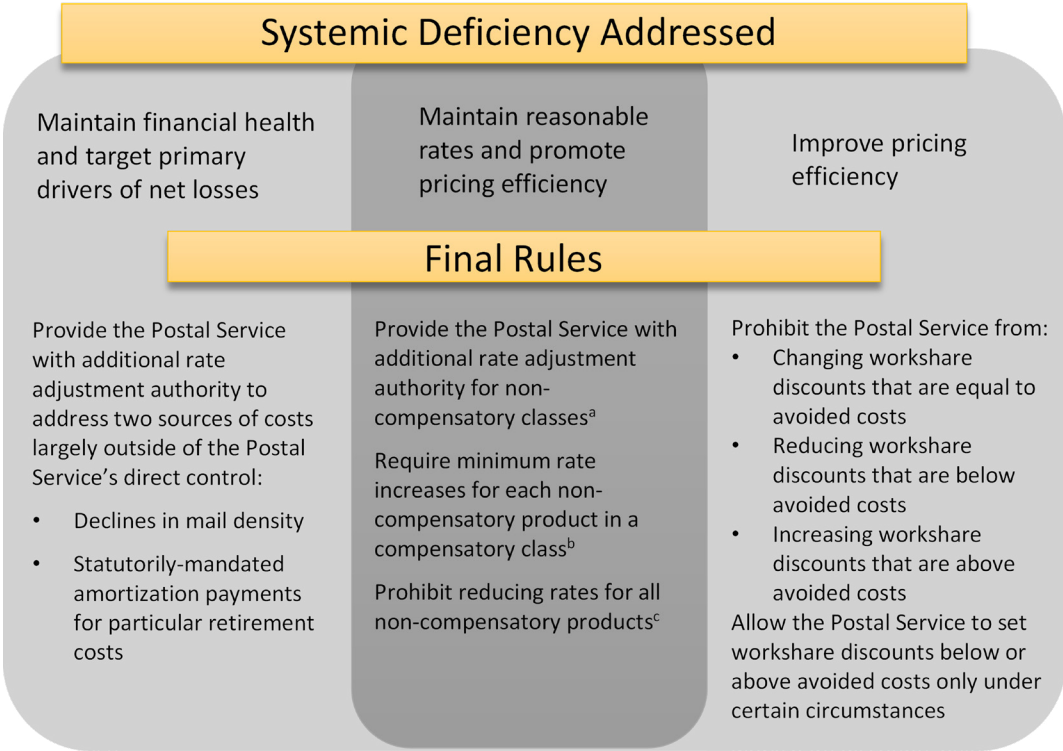
- The Market Dominant Rate System did not increase pricing efficiency because the Postal Service did not set workshare discounts as close as practicable to their avoided costs,¹⁵ and multiple products failed to cover their attributable costs¹⁶
- The Market Dominant Rate System did not maximize incentives to reduce costs and increase operational efficiency as intended by the PAEA¹⁷
- The Market Dominant Rate System did not maintain financial stability, including retained earnings, in the medium and long-term time frames because the Postal Service suffered a net loss each year during the PAEA era, and the Postal Service lacked sufficient net income to generate retained earnings¹⁸
- The Market Dominant Rate System did not achieve reasonable rates because products and classes that failed to cover their attributable costs threatened the Postal Service's financial integrity¹⁹
- The Market Dominant Rate System did not effectively encourage the maintenance of high-quality service standards because the Postal Service reduced the high-quality service standards initially promulgated in 2007²⁰

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. The Commission subsequently issued a revised NPR to reflect comments received on the initial NPR, as well as to improve and strengthen the initial proposed rules.

After considering comments received on the revised NPR, the Commission issued final rules adopting changes to the regulations governing the Market Dominant Rate System. The modifications adopted by the Commission were designed to achieve all of the PAEA’s objectives applied in conjunction with each other. Figure III-1 provides examples of how the three major aspects of the final rules were designed to address the systemic deficiencies identified by the Commission to have frustrated the former Market Dominant Rate System’s ability to achieve these objectives:

Figure III-1: Systemic Deficiencies Addressed by the Final Rules



^a Non-compensatory classes refer to classes for which the attributable costs of all products exceed the revenues of all products. Order No. 5763 at 189, 285.

^b This rule applies only to a product for which both of the following two criteria apply: (1) the product’s attributable costs exceed revenue; and (2) the product is included within classes of mail for which the overall class revenue exceeds overall class attributable cost. Order No. 5763 at 181, 187.

^c This rule applies to each product for which attributable costs exceed revenue, regardless whether the product is included within a class of mail that is compensatory overall. Order No. 5763 at 320, Attachment at 15, 21.

Source: Order No. 5337 at 62, 182; Order No. 5763 at 19, 182

First, to address obstacles to the Postal Service's ability to maintain financial health and target primary drivers of net losses, the final rules modified the former price cap by providing the Postal Service two new forms of Market Dominant rate adjustment authority in addition to the rate authority provided by the percentage change in the Consumer Price Index for All Urban Customers (CPI-U). These principled adjustments to the Market Dominant Rate System were designed to allow the Postal Service the opportunity to generate revenue to address two sources of costs largely outside the Postal Service's direct control: (1) declines in mail density; and (2) statutorily-mandated amortization payments for particular retirement costs. The density-based rate authority, which is designed to address consequences of declines in the volume of mail per delivery point, provided 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.²⁴

The retirement-based rate authority, which is designed to address the Postal Service's statutorily-mandated amortization payments for particular retirement costs, provided 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 amortization payments, as calculated under the Commission's formula.²⁵ The retirement-based rate adjustment authority will be phased in over 5 years.²⁶

Second, to address the failure of the Market Dominant Rate System to maintain reasonable rates and promote pricing efficiency, the final rules provided additional rate adjustment authority for non-compensatory classes and imposed new requirements for non-compensatory products. As a starting point, the

final rules prohibited the Postal Service from reducing rates for non-compensatory products.²⁷ Additionally for each non-compensatory product included in a compensatory class, the final rules required a minimum rate increases of at least 2 percentage points above the average percentage increase for the class.²⁸ These restrictions are designed to stop the trend of declining cost coverage for these products and move cost coverage toward 100 percent.²⁹ For each non-compensatory mail class, the final rules provided the Postal Service with the option to use additional rate authority of 2 percentage points per class and per fiscal year, which is aimed at narrowing the cost coverage gap of those classes over time.³⁰

Third, to improve pricing efficiency, the final rules enhanced the Commission's regulation of workshare discounts to phase out two practices impeding pricing efficiency: workshare discounts that are set either substantially below avoided costs or substantially above avoided costs.³¹ The final rules prohibited the Postal Service from changing workshare discounts that are equal to avoided costs; reducing workshare discounts that are below avoided costs; and increasing workshare discounts that are above avoided costs.³² The Postal Service may propose to set a workshare discount below or above avoided costs only under certain circumstances.³³ 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.³⁴

The final rules made other changes to the Market Dominant Rate System that include:

- Extending the minimum notice period for rate adjustment filings from 45 to 90 days
- Discontinuing the Commission's practice of addressing the objectives and factors of 39 U.S.C. § 3622(b) and (c) in individual rate

adjustment proceedings

- Adding reporting requirements intended to facilitate the tracking of costs and monitoring of the Postal Service's efforts to reduce costs
- Providing for a holistic review of the effects of the Commission's rule changes after 5 years, retaining the flexibility to review and adjust certain components of the system sooner than 5 years if necessary³⁵

Taken together, the changes adopted in the final rules were designed to remedy the deficiencies in the existing Market Dominant Rate System identified in Order No. 4257.

Mailers and the Postal Service filed petitions for review of Order No. 5763, which adopted the final rules, before the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). On November 12, 2021, the D.C. Circuit denied the petitions for review, finding that the Commission acted within the scope of its statutory authority, and the changes adopted in the final rules were not arbitrary and capricious. The D.C. Circuit's opinion is discussed below in the "Court of Appeals Cases" section.

Additionally "to explor[e] ways to enhance the regulatory system to promote longer-term financial stability, increased efficiency and cost reductions, while maintaining high-quality service standards..." the Commission announced its intent³⁶ and subsequently initiated a new separate rulemaking in Docket No. RM2021-2 (Performance Incentive Mechanism), which is described further below.

Performance Incentive Mechanism

Based on its findings in its order adopting final rules changing the Market Dominant Rate System that further study would produce useful information concerning certain issues, the Commission initiated Docket No. RM2021-2

by issuing an ANPR under 39 U.S.C. § 3622(d) (3) seeking input from the public about what additional regulations promulgated by the Commission may be necessary to achieve the PAEA's objectives over the longer term.³⁷ Specifically, the Commission sought input on performance incentive mechanisms (PIMs) that would maximize incentives to increase efficiency and reduce costs, maintain high-quality service standards, and assure financial stability (including retained earnings).³⁸ Regulators use PIMs to set a target for acceptable performance by a regulated entity in a specific area and attach financial benefits and/or consequences to ensure compliance.³⁹

The Commission invited comments on ideas for PIMs that would:

- Connect direct financial consequences with increasing efficiency, reducing costs, and maintaining high-quality service standards
- Incentivize the Postal Service to increase efficiency and reduce costs using an operational efficiency-based requirement such as total factor productivity
- Maintain high-quality service standards and hold the Postal Service accountable for consistently achieving those standards⁴⁰

On June 24, 2021, the Postal Service filed a motion asking the Commission to hold this rulemaking in abeyance until the D.C. Circuit resolves appeals of the Commission's final rules adopting changes to the regulations governing the Market Dominant Rate System.⁴¹ The Postal Service asserted that the outcome of these appellate proceedings "would affect the basis for evaluating any further pricing authority, including the propriety (and contents) of a [PIM]."⁴² The Postal Service's motion was supported by the Public Representative and the Association for Postal Commerce, who both shared the same concerns.⁴³ On July 2, 2021, the Commission

granted the Postal Service's motion and held this rulemaking in abeyance until further notice.⁴⁴ This proceeding is currently pending before the Commission.

Institutional Cost Contribution Requirement

The PAEA requires Competitive products to “collectively cover what the Commission determines to be an appropriate share of the [Postal Service’s] institutional costs...”⁴⁵ The “appropriate share” is the minimum amount that Competitive products as a whole must contribute to institutional costs annually.⁴⁶ At least every 5 years, the Commission must review the appropriate share requirement to decide whether any changes are necessary.⁴⁷ 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.”⁴⁸

In FY 2020, the Commission issued Order No. 4963 codifying a new methodology to calculate the appropriate share: a dynamic formula-based approach that measures aspects of the competitive market and updates the appropriate share annually based on market changes.⁴⁹ United Parcel Service, Inc. (UPS) appealed this order to the D.C. Circuit, which subsequently remanded the case to the Commission to address particular issues identified in the court’s decision.⁵⁰

On November 18, 2021, the Commission issued a supplemental NPR that addressed issues identified by the court and initiated its third 5-year review of the appropriate share requirement.⁵¹ The Commission proposed to calculate the appropriate share using the same dynamic formula-based approach that the Commission previously adopted in Order No. 4963.⁵² The Commission explained how the formula operates and how it accounts for

the prevailing competitive conditions in the market and other relevant circumstances that the Commission has historically considered qualitatively when evaluating the appropriate share requirement.⁵³ This proceeding is currently pending before the Commission.

Letter Monopoly Exemptions

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.⁵⁴ The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence, with some exemptions.⁵⁵ These exemptions are codified in 39 U.S.C. § 601, which specifies instances when the letter monopoly does not apply to a mailpiece.⁵⁶

39 U.S.C. § 601(c) directs the Commission to promulgate “[a]ny regulations necessary to carry out [section 601]...”⁵⁷ The Commission issued this ANPR to explore potential options for issuing these regulations and sought comments on 14 specific issues.⁵⁸ Two Chairman’s Information Requests (CHIRs) were issued and 11 comments were received.⁵⁹

Based on these comments, the Commission issued an order on July 2, 2021 holding this rulemaking in abeyance.⁶⁰ It found that before promulgating regulations on section 601(c), it was necessary to gather more information from the public by initiating a public inquiry docket seeking comments to better inform next steps.⁶¹ The Commission announced its intent to issue an order governing proceedings in Docket No. RM2020-4 after completing the public inquiry docket.⁶²

That same day, the Commission issued another order initiating the related public inquiry in

Docket No. PI2021-2.⁶³ This proceeding is described in the “Public Inquiries” section below. Based on the comments received in this proceeding and in Docket No. PI2021-2, the Commission issued an NPR proposing new regulations necessary to carry out 39 U.S.C. § 601.⁶⁴

First, the Commission proposed a provision stating that certain Postal Service regulations related to the letter monopoly fall within the scope of the proposed rules and are subject to Commission interpretation.⁶⁵

Rate Adjustments

One of the Commission’s major statutory responsibilities is to ensure that the Postal Service’s proposed rate and classification 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.”⁶⁸ These rates are available to the general public; examples include Forever Stamps and Priority Mail Flat Rate boxes. All customers pay the same rate for a product, although some products are only available to businesses and not individuals.



Second, the proposed regulations explicitly state that the Postal Service no longer has the authority to issue regulations interpreting, suspending, or otherwise defining the scope of the letter monopoly.⁶⁶ Third, the proposed regulations allow interested persons to seek interpretation of statutory language or Postal Service regulations by either filing a rulemaking petition with the Commission or requesting an advisory opinion from the Commission’s General Counsel.⁶⁷ This proceeding is currently pending before the Commission.

Rates not of general applicability are offered by the Postal Service to specific mailers through negotiated service agreements (NSAs).⁶⁹ NSAs are written contracts between the Postal Service and a mailer that are effective for a defined period of time.⁷⁰ They provide for customer-specific rates, fees, and/or terms of service according to the terms and conditions of the contract.⁷¹

In FY 2021, the Commission reviewed the Postal Service’s proposed changes to rates for both Market Dominant and Competitive products, along with corresponding classification changes. Each is discussed below.

Market Dominant Products

RATES OF GENERAL APPLICABILITY

Market Dominant products with rates of general applicability are divided into five mail classes as shown in Figure III-2.

Figure III-2: Market Dominant Classes and Products Rates of General Applicability



Source: 39 C.F.R. part 3040, subpart A, Appendix A.

- Rate adjustments for each Market Dominant mail class must not exceed the price cap, an annual limitation based on the CPI-U⁷²
- Workshare discounts must not exceed the Postal Service's avoided costs unless a statutory exception applies⁷³
- Preferred rates must be set consistent with statutory requirements⁷⁴

On October 9, 2020, the Postal Service filed a notice proposing rate adjustments and related MCS changes for Market Dominant domestic and international products.⁷⁵ The Postal Service proposed increasing rates for each Market Dominant mail class by between 1.456 percent (Periodicals) and 1.831 percent (First-Class Mail).⁷⁶

The Commission reviewed the proposed rate adjustments and MCS changes for compliance with the former rules. After analyzing the record and considering comments received, the Commission issued an order approving the proposed rate adjustments and related MCS changes.⁷⁷

In FY 2021, there were two large scale Market Dominant rate adjustment proceedings. As previously discussed, the Commission also issued final rules adopting changes to the regulations governing the Market Dominant Rate System. As described below, the Commission evaluated the first proposed rate adjustment based on the requirements of the former rules and the second proposed rate adjustment based on the requirements of the new rules.

Rate adjustments under former rules

The former rules governing rates of general applicability for Market Dominant products allowed the Postal Service to adjust rates if the following statutory requirements were met:

The Commission concluded that the proposed rate adjustments:

- Did not violate price cap limitations specified by 39 U.S.C. § 3622(d)
- Were consistent with or justified by an exception to the workshare discount limitations in 39 U.S.C. § 3622(e)
- Were consistent with the pricing requirements for preferred rates in 39 U.S.C. § 3626, and did not implicate the pricing requirements in sections 3627 and 3629⁷⁸

The new rates and related MCS changes became effective on January 24, 2021.⁷⁹

Rate adjustments under new rules

The new rules differ from the former rules

in several key respects. First, the new rules provide the Postal Service additional rate adjustment authority.⁸⁰ Under the former rules, Market Dominant rate increases for each class were generally capped at the rate of inflation as measured by the CPI-U.⁸¹ The new rules modified the price cap to include additional rate adjustment authority to allow the Postal Service the opportunity to generate revenue to address costs related to declines in mail density and statutorily-mandated amortization payments for particular retirement costs.⁸²

Second, the new rules provide additional rate adjustment authority for non-compensatory classes and impose new requirements for non-compensatory products. The new rules prohibit the Postal Service from reducing rates for any non-compensatory product.⁸³ If a non-compensatory product is part of a mail class that covers its attributable costs, the rates for each non-compensatory product must increase by at least 2 percentage points more than the percentage increase for that class.⁸⁴ For non-compensatory classes, the new rules provide the Postal Service with an optional 2 percentage points of additional rate authority.⁸⁵

Third, the new regulations contain new requirements for workshare discounts:

- If a workshare discount equals the cost avoided by the Postal Service, then the size of the discount cannot change
- If a workshare discount exceeds the costs avoided by the Postal Service, then the size of the discount cannot increase
- If a workshare discount is less than the costs avoided by the Postal Service, then the size of the discount cannot decrease⁸⁶

The new regulations also set specific limitations for setting workshare discounts that do not equal avoided costs.⁸⁷ The Postal Service may not set

a workshare discount that exceeds its avoided costs unless the discount is new, is at least 20 percent less than the existing discount, or relates to a subclass of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value.⁸⁸ The Postal Service may not set a workshare discount that is less than its avoided costs unless the discount is new, is at least 20 percent more than the existing discount, or produces a passthrough of at least 85 percent.⁸⁹ If none of these exceptions applies, the Postal Service must apply for a waiver at least 60 days before the next rate adjustment filing.⁹⁰

On May 28, 2021, the Postal Service filed a second notice proposing rate adjustments and related MCS changes for Market Dominant products, which the Commission evaluated for compliance with the new rules.⁹¹ The proposed rate adjustments were the first to be filed and reviewed under the Commission's new rules governing the Market Dominant Rate System.⁹² After analyzing the record and considering comments received, the Commission issued an order concluding that the proposed rate adjustments, including workshare discounts, were consistent with the new regulations in 39 C.F.R. part 3030 and applicable Commission directives and orders.⁹³ It found that the proposed rate adjustments were consistent with the pricing requirements in 39 U.S.C. § 3626, and the planned MCS changes, as revised in the order, were consistent with applicable law.⁹⁴ The new rates and related MCS changes became effective on August 29, 2021.⁹⁵

Application for workshare discount waiver

Before filing the second notice of rate adjustment in Docket No. R2021-2, the Postal Service applied for a waiver to set the workshare discount for First-Class Mail Letters sorted to the 5-Digit level below the rule's 85 percent passthrough requirement.⁹⁶ It asserted that increasing this workshare discount to comply with the

Commission's regulations "could decrease the efficiency of its processing operations."⁹⁷ It noted that this increase would be nearly 17 percent higher than the same discount in FY 2020 and thus represent "a dramatic change following years of relative pricing stability."⁹⁸ It also stated that this increase "could lead to unpredictable changes among the relative proportions of mail volumes sorted to 5-Digit, Auto AADC, and Mixed AADC."⁹⁹ For these reasons, the Postal Service sought a waiver to set the workshare discount below its avoided costs.¹⁰⁰

The Commission initiated a proceeding to consider the application for waiver and received dozens of comments recommending that the Commission deny the application.¹⁰¹ After reviewing the record and considering comments received, the Commission issued an order denying the waiver application because the Postal Service failed to provide the information required by 39 C.F.R. § 3030.286.¹⁰² First, the Postal Service provided high-level generalizations instead of specific and detailed explanations with supporting analysis and discussion of assumptions relied upon.¹⁰³ Second, the Postal Service asserted that increasing the workshare discount "could decrease the efficiency of its processing operations," but did not include the explanations required by 39 C.F.R. § 3030.286(c)(5).¹⁰⁴ Third, the Commission intended for the Postal Service to apply for a waiver only under "exceptional circumstances" that did not apply in this case.¹⁰⁵ In the second rate case, the Commission verified that the workshare discount for First-Class Mail Automation 5-Digit Letters complied with the new workshare rules.¹⁰⁶

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.¹⁰⁷ 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 3040, subpart G. No Market Dominant NSAs were filed in FY 2021.

Competitive Products

When the Postal Service decides to change rates or classes of general applicability, it must file a notice with the Commission describing the proposed changes at least 30 days before the new rates or classes become effective.¹⁰⁸ For proposed changes to rates or classes not of general applicability, the Postal Service must provide 15 days advance notice.¹⁰⁹ The notice of proposed rate or class adjustment must include an explanation and justification for the proposed changes, the effective date of the new rates or classes, and either a schedule of the changed rates or the record of proceedings regarding the changes.¹¹⁰

The Commission then initiates a proceeding to consider the proposed rate or class adjustments, appoints a Public Representative, and provides an opportunity for comment. It reviews 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 products¹¹¹
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"¹¹²
3. All Competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs¹¹³

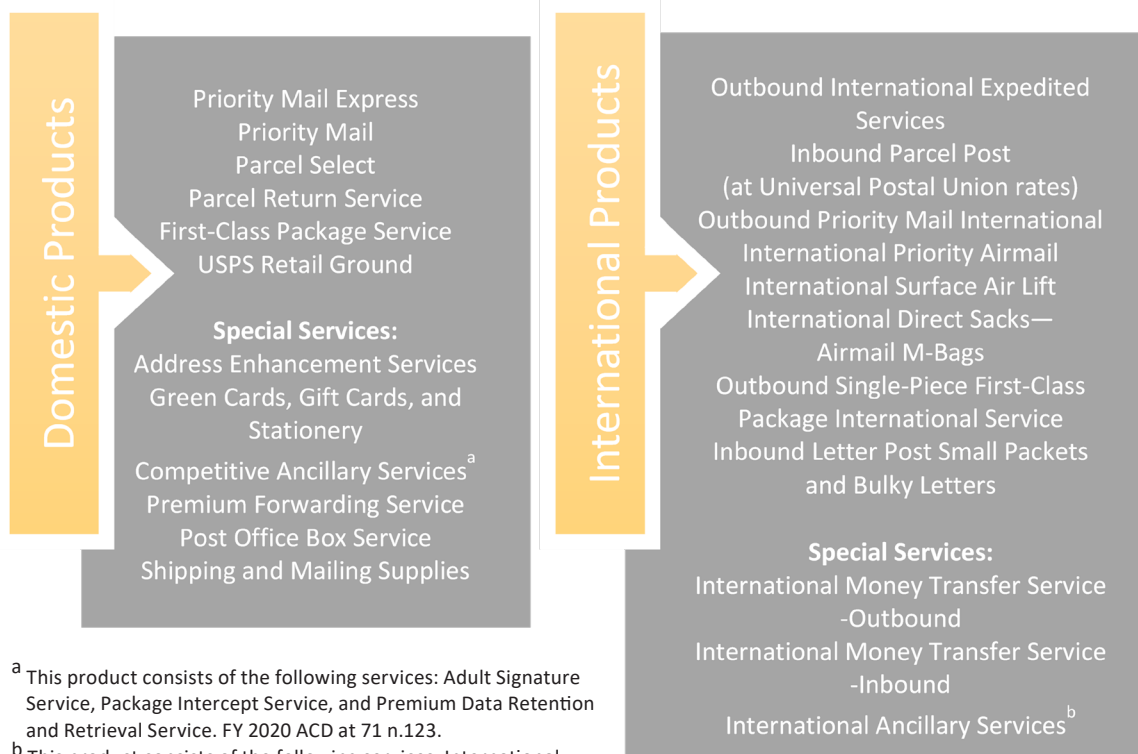
Competitive rate adjustments must also comply with the Commission's rules in 39 C.F.R. part 3035. In FY 2021, the Commission reviewed the Postal Service's proposed changes to both rates

and classes of general applicability and rates not of general applicability for Competitive products. Each is discussed below.

RATES OR CLASSES OF GENERAL APPLICABILITY

Competitive products with rates of general applicability are grouped into domestic and international products, as shown in Figure III-3:

**Figure III-3: Domestic and International Competitive Products
Rates of General Applicability**



^a This product consists of the following services: Adult Signature Service, Package Intercept Service, and Premium Data Retention and Retrieval Service. FY 2020 ACD at 71 n.123.

^b This product consists of the following services: International Certificate of Mailing; Competitive International Registered Mail; Outbound International Return Receipt; Restricted Delivery; Outbound International Insurance; and Customs Clearance and Delivery Fee. FY 2020 ACD at 73 n.131.

Source: 39 C.F.R. part 3040, subpart A, Appendix B; FY 2020 ACD at 71, 73.

In FY 2021, the Postal Service filed notices proposing changes in rates of general applicability for several domestic and international Competitive products, along with proposed changes to the MCS.¹¹⁴ After reviewing the notices, the CHIR response, and the comments received, the Commission approved the proposed rate adjustments and corresponding MCS changes, finding that they complied with 39 U.S.C. § 3633(a) and the Commission's regulations in 39 C.F.R. part 3035.¹¹⁵ The new rates and MCS changes became effective on January 24, 2021.¹¹⁶

On August 10, 2021, the Postal Service also filed a notice proposing time-limited changes

in rates of general applicability for Competitive domestic products.¹¹⁷ The Postal Service proposed temporarily increasing rates effective October 3, 2021, and rates would roll back to current levels on December 26, 2021.¹¹⁸ After reviewing the notice and the comments received, the Commission approved the proposed time-limited rate adjustments and corresponding MCS changes, finding that they complied with 39 U.S.C. § 3633(a) and the Commission's regulations in 39 C.F.R. part 3035.¹¹⁹

Additionally, the Commission considered a proposed Postal Service classification change for Priority Mail Express.¹²⁰ Specifically, the Postal

Service proposed to change the MCS to eliminate the 10:30 am delivery option and associated fee because of the Postal Service’s decision to reposition Priority Mail Express as an end-of-day guarantee.¹²¹ The Postal Service also stated its intent to make conforming changes to the DMM to make 6:00 pm a uniform delivery commitment time.¹²² After reviewing the notice and comments received, the Commission approved the proposed classification changes, finding that they complied with 39 U.S.C. §§ 3632 and 3633 and 39 C.F.R. part 3035.¹²³

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 2021, the Commission reviewed and approved 136 Competitive NSAs: 131 domestic and 5 international. Table III-1 shows the number of NSAs the Commission approved between FY 2016 and FY 2021.

The Commission updates NSA statistics monthly on its website.¹²⁴

Table III-1: Competitive NSAs Approved by the Commission^a
FY 2016 through FY 2021

Competitive NSAs	FY 2021	FY 2020 ^b	FY 2019	FY 2018	FY 2017	FY 2016
Domestic	131	218	191	226	211	187
International	5	49	25	81	104	97
Total	136	267	216	307	315	284

^a 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.

^b FY 2020 totals differ from those reported in the FY 2020 Annual Report because 8 international mail NSAs were inadvertently categorized as domestic. See FY 2020 Annual Report at 32.

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 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.

In FY 2021, the Postal Service implemented 279 NSAs with non-published rates. Table III-2 shows the number of non-published rate NSAs implemented by the Postal Service between FY 2016 and FY 2021.

**Table III-2: Non-Published Rate Contracts Implemented by the Postal Service
FY 2016 through FY 2021**

Non-Published Rate	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Global Expedited Package Services Non-Published Rates 1-15	159	380	326	474	393	244
Priority Mail – Non-Published Rates 1 and 2	120	125	116	145	121	207
Total	279	505	442	619	514	451

Source: Postal Regulatory Commission, Negotiated Service Agreements (NSAs) Statistics October 2021 Update, available at <https://www.prc.gov/sites/default/files/October%20NSA%20Monthly%20Summary%202021.pdf>.

Inbound Letter Post

Under the Universal Postal Union (UPU) Convention, by June 1, 2021, the Postal Service may submit self-declared rates for Inbound Letter Post Small Packets and Bulky Letters that would become effective on January 1, 2022.¹²⁵ On May 14, 2021, the Postal Service filed a notice with the Commission proposing specific per-item and per-kilogram self-declared rates for Inbound Letter Post Small Packets and Bulky Letters, which would become effective on January 1, 2022.¹²⁶ It asserted that the proposed rates comply with 39 U.S.C. § 3633.¹²⁷

Based on its review of the notice, the supporting data filed under seal, the CHIR response, and the comments received, the Commission concluded that the new self-declared rates complied with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3035.¹²⁸ The Commission also issued a Final Determination unsealing the self-declared rates for Inbound Letter Post Small Packets and Bulky Letters on July 13, 2021.¹²⁹

Inbound Parcel Post (at UPU rates)

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.¹³⁰

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 UPU 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.¹³¹ These rate increases are applied to the base rates effective January 1 and July 1 of each year.¹³²

On December 11, 2020, the Postal Service filed a notice announcing its intention to change rates not of general applicability for Inbound Parcel Post (at UPU rates) effective January 1, 2021.¹³³ The Commission analyzed the proposed rates pursuant to 39 U.S.C. § 3633(a) and issued an order acknowledging revised rates for this product.¹³⁴

Inbound Express Mail Service 2

On August 14, 2020, the Postal Service proposed a change in rates not of general applicability for Inbound Express Mail Service 2 (EMS) effective January 1, 2022.¹³⁵ Inbound EMS 2 covers Express Mail International documents and merchandise received from foreign postal operators for delivery in the Postal Service’s domestic delivery area.¹³⁶ 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. § 3035.105.¹³⁷

ASSUMED FEDERAL INCOME TAX

The Commission 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.¹³⁸ On January 14, 2021, the Postal Service

filed its calculation of the assumed Federal income tax for FY 2020.¹³⁹ CHIR No. 1 was issued seeking to reconcile the Competitive income tax calculations with the changes to the Competitive product revenue and cost data the Postal Service filed in the FY 2020 ACR.¹⁴⁰ The Postal Service filed its CHIR response and revised calculations on March 19, 2021.¹⁴¹ After reviewing the revised calculation, the CHIR response and the one comment received, the Commission approved the Postal Service's revised calculation of the assumed Federal income tax on its FY 2020 Competitive products' income.¹⁴²

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.¹⁴³ 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.¹⁴⁴ 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 30.¹⁴⁵

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 2021, each report was issued in Docket No. ACR2020 and is described below.¹⁴⁶

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.¹⁴⁷ The Commission publishes its analysis of the ACR in the ACD.

The Commission issued the FY 2020 ACD on March 29, 2021 and made several principal findings and directives.¹⁴⁸ For Market Dominant products, the Commission identified key issues related to non-compensatory products and classes, flat-shaped products, and service performance. For each key issue, the Commission's principal findings, recommendations, and directives are summarized below.

First, with respect to non-compensatory products and classes, ten Market Dominant



products and two of the five Market Dominant classes (Periodicals and Package Services) did not generate sufficient revenue to cover their attributable costs in FY 2020.¹⁴⁹

The ten Market Dominant products that did not generate sufficient revenue to cover their attributable costs in FY 2020 were:

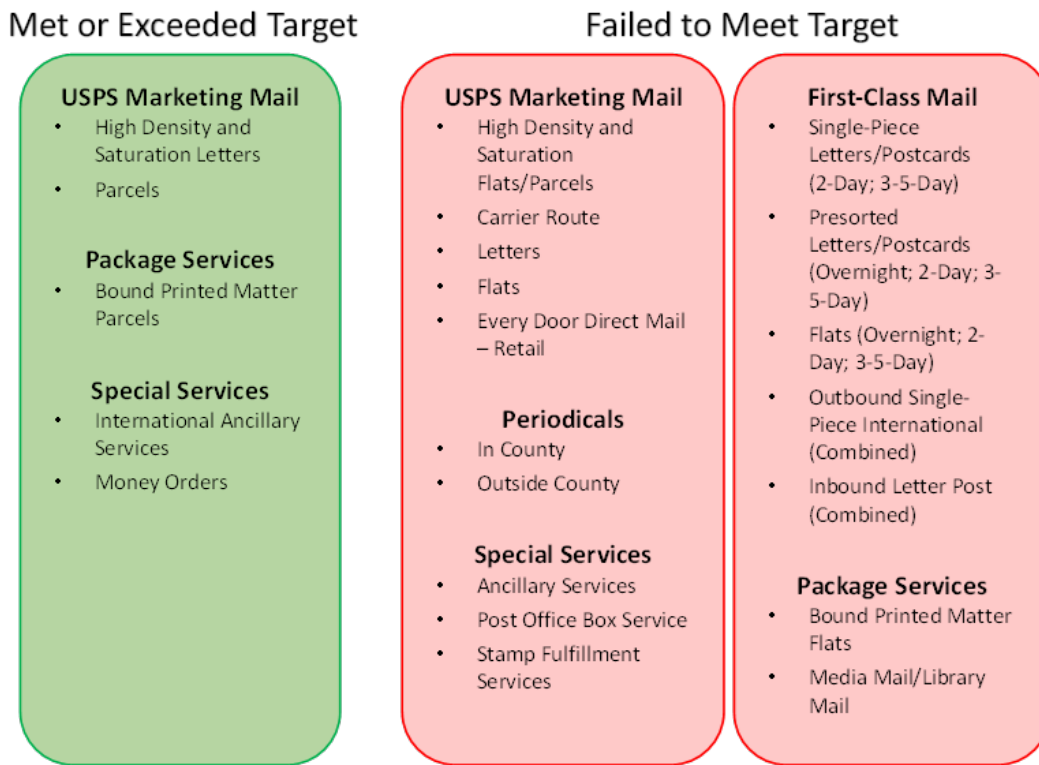
- Both Periodicals products (In-County and Outside County)
- Three USPS Marketing Mail products (Flats, Parcels, and Carrier Route)
- Two Package Service products (Media Mail/Library Mail and Bound Printed Matter Parcels)
- Two Special Services products (Money Orders and International Ancillary Services)
- Inbound Letter Post¹⁵⁰

For each of the non-compensatory products and classes identified above, the Commission analyzed financial trends observed over multiple fiscal years to develop specific recommendations and directives aimed at improving cost coverage.¹⁵¹ Key directives included requiring the Postal Service to propose above average price increases for all three non-compensatory USPS Marketing Mail products (Flats, Parcels, and Carrier Route) in the next Market Dominant rate adjustment, to continue to update the Periodicals Pricing Report analyzing how pricing impacted financial results and pricing efficiency, and to explore and report concerning opportunities to reduce unit costs.¹⁵²

Second, with respect to flat-shaped products, the Commission found that operations, financial, and service performance challenges persisted in FY 2020.¹⁵³ Specifically for these products, unit costs and contribution losses continued to grow while service performance targets were also not met.¹⁵⁴ Collectively, these products had a cumulative negative contribution of more than \$1 billion in FY 2020, which highlights the urgency and importance of addressing these issues.¹⁵⁵ The Commission expressed continued concerns related to the Postal Service's lack of specific plans to reduce costs and improve service as well as the inability of the Postal Service to determine how its operational initiatives and/or changes will impact cost and service.¹⁵⁶ The Commission made several recommendations for data collection and analysis for ongoing and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations.¹⁵⁷

Third, with respect to service performance, the Commission evaluated each Market Dominant product by comparing the percentage of mailpieces that achieve the stated service standard with targets set by the Postal Service.¹⁵⁸ It found that most products failed to meet their annual service performance targets in FY 2020.¹⁵⁹ Figure III-4 below shows whether each Market Dominant product achieved their annual service performance targets for FY 2020.

**Figure III-4: FY 2020 Service Performance Results
For Market Dominant Products**



Source: FY 2020 ACD at 98.

The Commission considered the significant internal and external factors that impacted service performance in FY 2020, including the COVID-19 pandemic, operational changes and corporate reorganization undertaken by the Postal Service, and efforts to prioritize delivery of Political Mail, Election Mail, and Census Mail.¹⁶⁰ The Commission determined that in FY 2020, the Postal Service was out of compliance with regard to service performance for First-Class Mail Single-Piece Letters/Postcards, First-Class Mail Outbound Single-Piece International, Outside County Periodicals, and In-County Periodicals.¹⁶¹ It directed the Postal Service to take corrective action, including continued reporting of specific information developed from internal Postal Service metrics.¹⁶² These requirements include reporting monthly service performance data for products found out of compliance.¹⁶³ The Commission developed directives that elicit information regarding the steps that the Postal Service will take to restore service performance

for its products in FY 2021.¹⁶⁴ Additionally, the Commission directed the Postal Service to file a pre-implementation service performance impact analysis for initiatives that the Postal Service plans to implement on or before the next ACD is issued, if the initiative would have a reasonably foreseeable impact on service performance results.¹⁶⁵

In addition to these key issues, the Commission also identified that seven workshare discounts did not comply with 39 U.S.C. § 3622(e) because they exceeded the Postal Service's avoided costs.¹⁶⁶ The Commission directed the Postal Service to either align the non-compliant workshare discounts with their avoided cost in the next Market Dominant rate adjustment or provide support for an applicable statutory exception.¹⁶⁷

For Competitive products, the Commission determined that every domestic product

with rates of general applicability covered its attributable cost.¹⁶⁸ However, revenues for five Competitive products did not cover their attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2).¹⁶⁹ The Commission directed the Postal Service to take corrective action, including requiring new quarterly reporting on outbound international NSAs to ensure ongoing compliance and appropriate oversight for these contracts.¹⁷⁰

Financial Analysis

The Commission issued its *Financial Analysis of the United States Postal Service Financial Results and 10-K Statement for FY 2020*.¹⁷¹ The report provided comprehensive analysis of the Postal Service's financial status primarily using information reported in its FY 2020 Form 10-K, including comparisons with FY 2019 results and its FY 2020 Integrated Financial Plan. The Commission's analysis concluded that while liquidity improved, in large part as a result of the CARES Act,¹⁷² the Postal Service remains financially unstable, its financial condition has declined during the past 4 years, and the gap between its current assets and current liabilities has increased significantly during the last decade.¹⁷³

The Commission found that at the end of FY 2020:

- The Postal Service's total net loss was \$9.2 billion
- Cash and cash equivalents (excluding restricted cash) totaled \$14.4 billion, an increase of \$5.6 billion and the highest cash balance since FY 2006¹⁷⁴
- Operating revenue was \$73.1 billion, which was \$2.0 billion more than FY 2019
- Net operating expenses were \$76.6 billion, which were \$2.4 billion more than FY 2019
- Approximately 77 percent of total expenses were personnel-related¹⁷⁵

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.¹⁷⁶ The Commission may also provide the Postal Service with recommendations related to protecting or promoting public policy objectives in Title 39.¹⁷⁷

On June 2, 2021, the Commission issued a detailed analysis of the Postal Service's progress during FY 2020 toward its four performance goals: (1) High-Quality Service, (2) Excellent Customer Experiences, (3) Safe Workplace and Engaged Workforce, and (4) Financial Health.¹⁷⁸ In its analysis, the Commission evaluated whether the FY 2021 Annual Performance Plan and FY 2020 Annual Performance Report complied with 39 U.S.C. §§ 2803 and 2804.¹⁷⁹ Also, the Commission found that the Postal Service either did not meet or only partially met each performance goal in FY 2020.¹⁸⁰ 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.¹⁸¹

Nature of Service Cases

The Postal Service must request an advisory opinion from the Commission for proposed changes in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis.¹⁸² This request must be submitted at least 90 days before the effective date of the proposed change.¹⁸³ The Commission evaluates requests for an advisory opinion for consistency with the policies of Title 39. These proceedings involve a hearing on the record with direct testimony and an opportunity for cross-examination. By law, the Commission's final opinion is advisory in nature. The law does not give the Commission authority to veto service changes. As a result, the Postal Service is not required to implement or take any further action with regard to the Commission's opinion.

In FY 2021, the Commission issued two advisory opinions on proposed changes to the service standards for: (1) First-Class Mail and end-to-end Periodicals; and (2) First-Class Package Service. Each proceeding is described below.

First-Class Mail and End-to-End Periodicals

On July 20, 2021, the Commission issued an advisory opinion in Docket No. N2021-1 on proposed changes to the service standards for First-Class Mail and end-to-end Periodicals.¹⁸⁴ The Postal Service proposed to lengthen the service standards by up to 2 additional days for 38.5 percent of First-Class Mail and 7 percent of Periodicals mail. The Postal Service claimed that this would improve service capabilities, help it achieve its service standards, and reduce mail transportation costs.¹⁸⁵

In its advisory opinion, the Commission analyzed the estimated impact of the proposal on service performance, the Postal Service's financial condition, the transportation network, customer satisfaction, and mail volume.¹⁸⁶ The Commission found that, as an initial matter, the proposal

appeared to target mail that consistently fails to meet service performance goals and has the most opportunity for improvement.¹⁸⁷ However, the Commission also found that it was unclear how the proposal would address the trend of lower on-time service performance caused by processing point failures.¹⁸⁸

In addition, the Commission found that the Postal Service's computation of the estimated cost savings raised potential issues related to incomplete data and untenable underlying assumptions.¹⁸⁹ Moreover, the Commission found that the amount of estimated annual cost savings, even if fully realized, would not substantially affect the Postal Service's current financial condition.¹⁹⁰

Regarding the transportation network, the Commission found that the model, if successfully implemented, would improve the capacity utilization of the network.¹⁹¹ However, the mismatch between the baseline modeled network and the actual current network limited the Commission's confidence in the efficiency gains estimated through the Postal Service's modeling process.¹⁹²

The Commission also found that customer satisfaction depends on the Postal Service's ability to achieve its service standards reliably.¹⁹³ The Commission stated that although the Postal Service performed outreach explaining the proposed changes and effects, the Postal Service did not show that it adapted its proposal based on the concerns or issues raised by its customers and stakeholders.¹⁹⁴

In evaluating the proposal's impact on mail volume, the Commission found that the Postal Service could not estimate with any statistical confidence the proposal's impact on demand and volume because the econometric analysis submitted by the Postal Service did not address

the causal relationship between delivery times and mail volume.¹⁹⁵

Finally, the Commission found that the proposed changes were not facially inconsistent with applicable statutory requirements.¹⁹⁶

However, the Commission also found that the Postal Service did not demonstrate that its implementation of the proposed changes would comport with those requirements.¹⁹⁷

Based on these findings, the Commission recommended that the Postal Service: (1) communicate realistic performance targets; (2) monitor implementation to balance savings and service; (3) monitor implementation to drive transportation efficiency; (4) gauge customer satisfaction specifically for its proposed changes; (5) allow transparency into ongoing feedback and consider changes due to that feedback; and (6) limit the use of econometric demand analyses for purposes in which it does not provide meaningful results.¹⁹⁸

First-Class Package Service

On September 29, 2021, the Commission issued an advisory opinion in Docket N2021-2 on the Postal Service's proposal to revise service standards for First-Class Package Service.¹⁹⁹ The Postal Service proposed to lengthen the service standards by 1 to 2 additional days for approximately 31.2 percent of First-Class Package Service volume and shorten the service standards by 1 day for approximately 4.8 percent of First-Class Package Service volume.²⁰⁰ The advisory opinion was the first that the Commission had issued for a Competitive product, over which the Commission has more limited oversight than Market Dominant products.

The Postal Service's stated goals in its proposal were to "provide more reliable and consistent service performance, improve its ability to

function according to its operating plans and optimize its surface transportation network, and create cost savings by allowing more time to transport [First-Class Package Service] at a lower expense."²⁰¹ The Commission found that, while the Postal Service's stated goals for the proposal appeared reasonable, it had not demonstrated it could meet several factors necessary for successful implementation of the proposal.²⁰² The Postal Service also did not establish a timeframe for when it planned to realize the full impact of its proposed changes, nor did it estimate a date by which it would meet its service performance targets.²⁰³ The Postal Service also did not include any interim service performance targets in its proposal.²⁰⁴ The Commission's analysis revealed that the Postal Service's cost savings estimates may have been inflated, and the implementation of the proposed changes would not substantially affect the Postal Service's overall financial condition.²⁰⁵

The Commission also determined that flaws in the Postal Service's transportation model may have diminished its reliability, as the surface network impact projections and estimated cost changes presented were potentially inaccurate.²⁰⁶ Further, the Postal Service failed to demonstrate that it was operationally capable of running the complex surface network modeled to support the proposed service standard changes.²⁰⁷ Finally, the Commission cautioned that implementing processing and transportation changes prior to peak season might present challenges due to the continuation of the COVID-19 pandemic emergency and resulting stress on the logistics industry.²⁰⁸

The Commission provided several recommendations for the Postal Service to consider prior to implementing its proposal. First, the Commission urged the Postal Service to set realistic interim service performance targets to monitor progress towards its longer term target of 95 percent on time delivery for

First-Class Package Service.²⁰⁹ Second, the Postal Service should develop a rigorous analytical methodology to identify the changes in costs that would result from implementing its proposal.²¹⁰ Third, the Postal Service should monitor customer satisfaction going forward, particularly for key segments that may be most affected by the implementation of its proposal.²¹¹ Finally, the Commission recommended that the Postal Service engage stakeholders in a continuing dialogue regarding the effects of implementing its proposed changes and potential mitigation measures.²¹²

Changes to Product Lists and the Mail Classification Schedule

Product Lists

The Postal Service and mail users may ask the Commission to change the Market Dominant and Competitive product lists by adding new products, removing current products, or transferring products between the lists.²¹³ 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 3040.²¹⁴ The criteria for transferring a product are described 39 U.S.C. § 3642(b).

First, a product may not be classified as Competitive if the Postal Service exercises sufficient market power so that it can do any of the following without risk of losing a significant level of business to other firms offering similar products:

- Set the product's price substantially above costs
- Raise prices significantly
- Decrease quality
- Decrease output²¹⁵

Second, a product covered by the postal



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monopoly may not be transferred from the Market Dominant product list.²¹⁶ Third, the Commission must consider concerns of the private sector, product users, and small businesses.²¹⁷

When adding a product to the Competitive product list, the proposed product must also meet the financial requirements of 39 U.S.C. § 3633, which are discussed in the “Rate Adjustments – Competitive Products” section above.²¹⁸ In FY 2021, the Commission considered two major requests to change the Competitive products list, which are each described below.

TRANSFER OF BOUND PRINTED MATTER PARCELS TO COMPETITIVE PRODUCT LIST

Bound Printed Matter (BPM) Parcels is currently a parcel-shaped Market Dominant product in the Package Services mail class.²¹⁹ On March 26, 2021, the Postal Service filed a request asking the Commission to transfer BPM Parcels from the Market Dominant to Competitive product list.²²⁰ The newly proposed Competitive offering would be called Parcel Select Bound Printed Matter, to be included as a subcategory of the existing Competitive product referred to as Parcel

Select.²²¹

The Postal Service asserted that the Parcel Select Bound Printed Matter product complies with requirements under 39 U.S.C. § 3642 and the Commission's regulations.²²² It stated that mailers use BPM Parcels to ship inexpensive "light- to moderate-weight packages containing books, catalogs, and similar printed matter to individuals and businesses" by ground delivery.²²³ It noted that BPM Parcels is an alternative to more general-purpose ground shipping products offered by competitors.²²⁴

The Postal Service asserted that it does not exercise monopoly power over BPM Parcels because of "the existence of robust competition and large customers that are also competitors with their own end-to-end delivery networks."²²⁵ It stated that the Private Express Statutes do not apply to the BPM Parcels product because the statutory definition of a "letter" excludes bound books, catalogs, telephone directories, and other content shipped using this product.²²⁶ The Postal Service also described customer views and the likely effect of the proposed transfer on small businesses.²²⁷ It stated that "[t]ransferring BPM Parcels to the [C]ompetitive product list will not violate any of the three standards in 39 U.S.C. § 3633."²²⁸

Six CHIRs and one Commission Information Request were issued, and the Commission is currently considering hundreds of comments received. This proceeding is pending before the Commission.

OUTBOUND INTERNATIONAL NEGOTIATED SERVICE AGREEMENTS

On September 18, 2020, the Postal Service filed a request to add a new product named International Competitive Multi-Service Commercial Contracts 1 to the Competitive product list.²²⁹ The Postal Service proposed

changes to the filing process so as to allow the addition of outbound international NSAs to the Competitive product list without prior Commission review.²³⁰ Under this proposed process, the Postal Service would file almost all future customized outbound international NSAs within the new product, which would be approved without further Commission action, unless the Commission determined that further review was necessary.²³¹ The Postal Service asserted that the proposed changes to the filing process would reduce the administrative burden associated with filing these NSAs.²³²

The Commission reviewed the request along with a CHIR response and comments received. Based on its review, the Commission denied the request for two reasons.²³³ First, it stated that there was no basis to preliminarily determine that the NSAs added within the new product would comply with statutory requirements.²³⁴ It noted that the proposed filing process lacked sufficient safeguards such as a contract template or financial model with a fixed price rate.²³⁵

Second, the Commission stated that the NSAs proposed for inclusion within the new product would not be functionally equivalent because they would not necessarily share similar cost and market characteristics.²³⁶ It noted that approving changes to the filing process similar to those proposed by the Postal Service would require "a consistent financial model applicable to all agreements that fall under a product or grouping, and a demonstration of the shared cost and market characteristics of agreements within the product or grouping."²³⁷

Mail Classification Schedule

The Market Dominant and Competitive product lists are published in the MCS, which also includes rates, fees, and 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.²³⁸ In FY 2021, the Commission reviewed and approved a request to change the MCS product description for Outbound Single-Piece First-Class Package International Service.²³⁹

The MCS also contains applicable size and weight limitations for mail matter as part of

Public Inquiries

Public inquiry dockets are established by the Commission to provide a venue to explore issues of general interest. Four public inquiry dockets were before the Commission in FY 2021 that dealt with matters related to service performance, the value of the postal and mailbox monopolies, the cost of the Universal Service Obligation, and exemptions to the letter monopoly.

Changes to Service Performance Measurement Systems

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.²⁴³ Service performance for Market Dominant products is measured using Service Performance Measurement (SPM) systems. In FY 2018, the Commission 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.²⁴⁴ The Commission's regulations allow the Postal Service to propose changes to the SPM systems by filing a notice with the Commission.²⁴⁵

On August 31, 2021, the Postal Service filed a notice with the Commission proposing two material changes to the current SPM system.²⁴⁶ First, for First-Class Mail, the Postal Service would add reporting for 3-Day, 4-Day, and 5-Day

the description for each product.²⁴⁰ The Postal Service must inform the Commission of proposed updates to size and weight limitations for Market Dominant and Competitive products.²⁴¹ In FY 2021, the Commission reviewed and approved two proposed changes to the size limitations for international small packets and presorted First-Class Mail postcards.²⁴²

service standards.²⁴⁷ Second, the Postal Service would replace certain references to external SPM in its SPM Plan with internal SPM consistent with Order No. 5576.²⁴⁸ After thoroughly reviewing the record and considering comments received, the Commission approved the proposed changes to the SPM systems because they adequately aligned the SPM Plan with Order No. 5576 and the service standard changes described in Docket No. N2021-1.²⁴⁹ With respect to suggestions raised by commenters concerning issues outside the scope of docket such as reporting requirements, the Commission plans to initiate a rulemaking docket in the future to consider ways to improve the accuracy, clarity, and effectiveness of the 39 C.F.R. part 3050.²⁵⁰

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.²⁵¹ The Annual Report includes a separate estimate of the value of the mailbox monopoly alone.²⁵² The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence.²⁵³ The mailbox monopoly is the Postal Service's exclusive right to deliver to and collect from mailboxes.²⁵⁴

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.²⁵⁵ It explained that 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.²⁵⁶ 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."²⁵⁷

On February 10, 2021, the Commission filed a non-public library reference with supporting workpapers that explained the Commission's current methodology for estimating the value of the postal and mailbox monopolies.²⁵⁸ It explained that interested persons would have



access to this analysis when preparing comments in this proceeding.²⁵⁹ The Commission sought comments "on any or all aspects of existing and potential methodology changes."²⁶⁰ In total, eight CHIRs were issued, and six sets of initial comments followed by three sets of additional comments were received. This proceeding is pending before the Commission.

Universal Service Obligation Valuation Methodology

On December 10, 2020, the Commission initiated a public inquiry docket to consider potential changes to the Commission's methodology for estimating the cost of the Universal Service Obligation (USO Cost).²⁶¹ The Commission last considered this methodology in its 2008 report on the USO and postal monopoly.²⁶² In this report, the Commission explained that the Postal Service's overarching USO is set forth in 39 U.S.C. § 101(a), which requires the Postal Service to "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."²⁶³

In the USO Report, the Commission estimated the USO Cost, which it updates each year in the Annual Report based on the methodological approach adopted in the USO Report.²⁶⁴ This methodology was based on economic, technical, legislative, and societal considerations in 2008, which have potentially changed since then.²⁶⁵ Thus, the Commission established Docket No. PI2021-1 to revisit the assumptions underlying this methodology to ensure that the Commission's estimated USO Cost reflects the current environment in which the Postal Service operates.²⁶⁶

The Commission sought public comment on any and all aspects of the methodology for

estimating the USO Cost, including suggestions for revising any outdated assumptions and input on what data or analytical methods would be necessary to incorporate suggested changes into the methodology.²⁶⁷ It identified frequency of delivery and maintaining small Post Offices as two USO Cost components with valuation assumptions that appear ripe for revisiting.²⁶⁸ On January 12, 2021, the Postal Service filed a motion asking that the Commission provide a detailed explanation of the current methodology for estimating the USO Cost, including workpapers showing underlying calculations from the most recent estimate, to facilitate more meaningful comments.²⁶⁹ The Commission issued an order granting the motion and stated it will issue a library reference to include in this proceeding as soon as practicable.²⁷⁰

To facilitate potentially updating or improving selected inputs into the Commission's calculation of the USO Cost, two sets of CHIRs were issued, and responses were filed by the Postal Service. This proceeding is currently pending before the Commission.

Exemptions to Letter Monopoly

On July 2, 2021, the Commission issued an order initiating Docket No. PI2021-2 to determine whether the Commission needs to promulgate regulations to implement statutory exemptions to the letter monopoly in 39 U.S.C. § 601.²⁷¹ This public inquiry was related to the Commission's current rulemaking regarding letter monopoly exemptions in Docket No. RM2020-4.²⁷² The purpose of this public inquiry was to focus the Commission's inquiry on two issues. First, the Commission wanted to determine whether it should adopt Postal Service regulations administering certain sections of section 601.²⁷³ It explained that before the PAEA was enacted, the Postal Service issued regulations concerning the restrictions on the private carriage of letters.²⁷⁴ However, some of these regulations

were modified and superseded when the PAEA was adopted.²⁷⁵ The Commission stated that it is interested in exploring whether: (1) certain Postal Service regulations implement current statutory exemptions in section 601; and (2) the Commission should adopt these and other regulations to clarify these statutory exemptions.²⁷⁶

Second, the Commission sought to identify which private carrier services fall within the scope of section 601(b)(3).²⁷⁷ Specifically, the Commission sought comments on what services were “described by regulations of the United States Postal Service...that purport to permit private carriage by suspension of the operation of this section’ as of July 1, 2005.”²⁷⁸ The Commission also asked for suggestions regarding what regulations may be necessary to enumerate in clear terms all instances where private carrier services fall within the scope of section 601(b)(3).²⁷⁹

The Commission reviewed comments filed in this proceeding and Docket No. RM2020-4.²⁸⁰ Based on its review, the Commission concluded that it received adequate input from the public to propose regulations in Docket No. RM2020-4. Accordingly, the Commission closed this public inquiry docket on November 24, 2021.²⁸²

Proposals to Change Analytical Principles

Analytical principles are economic, mathematical, or statistical theories or assumptions the Postal Service applies when producing reports it submits to the Commission each year, such as the ACR.²⁸³ In these reports, the Postal Service must use only those analytical principles previously accepted by the Commission and applied in the most recent ACD, unless a different analytical principle has been subsequently approved through a Commission proceeding.²⁸⁴

The Postal Service applies analytical principles when calculating costs attributable to postal products.²⁸⁵ Attributable costs are incurred by the Postal Service when it engages in such activities as sorting and delivering mail. Costs like these must be attributed to products. The Commission uses attributable costs and cost estimates to evaluate the Postal Service's overall financial performance and compliance with the PAEA.²⁸⁶

To add or change an analytical principle, any interested person, including the Postal Service and the Public Representative, may submit a petition asking the Commission to initiate a proceeding to consider proposed changes.²⁸⁷ Petitions are filed with the Commission as numbered proposals, such as Proposal One and Proposal Two. Proposals must be designed to improve the quality, accuracy, or completeness of data or data analysis in the reports the Postal Service submits each year to the Commission.²⁸⁸

During FY 2021, the Commission considered nine Postal Service proposals and one proposal filed by UPS. The Commission issued final orders for seven of the proposals in FY 2021 or early FY 2022. Major proposals are described below.

Docket No. RM2020-2 (Proposal Ten)

Proposal Ten presented a new methodology for estimating the variability of Postmaster costs. A Postmaster is a manager in charge of a Post

Office.²⁸⁹ Postmaster compensation and pay grades are calculated based on the number of Work Service Credits (WSCs), which are earned for the amount of revenue generated by the Post Office the Postmaster is managing.²⁹⁰ Postmasters may also earn WSCs by performing non-revenue activities such as serving PO Boxes and delivery routes, sorting mail, and performing administrative functions.²⁹¹

The Postal Service took the position that the current methodology for attributing Postmaster costs to products is outdated because it is based upon a 1984 study.²⁹² To address this issue, Proposal Ten sought to update and improve the variabilities²⁹³ for calculating attributable Postmaster costs based upon a new study of Postmaster costs "that relies upon operational Postmaster data and reflects the current structure of Postmaster activities and compensation."²⁹⁴

After reviewing the proposal and comments it had received, the Commission rejected Proposal Ten.²⁹⁵ It found that "the Postal Service failed to show that either the current methodology was significantly inaccurate or that Proposal Ten would [significantly improve the] methodology used to calculate attributable postmaster costs."²⁹⁶ The Commission identified four problems with Proposal Ten, including the Postal Service's selection of a 10 percent WSC growth rate.²⁹⁷ The Commission described potential changes that could address the issues identified with Proposal Ten.²⁹⁸

Docket No. RM2020-9 (UPS Proposal One)

In UPS Proposal One, UPS asked the Commission to change how the Postal Service accounts for peak season costs in its reports filed with the Commission.²⁹⁹ It asserted that "current costing models approved by the Commission fail to account for peak-season cost increases."³⁰⁰

To address this potential issue, UPS Proposal One would have required the Postal Service to:

- Attribute “unexplained peak-season costs” to Competitive products as a group under the incremental cost test applied under 39 U.S.C. 3633(a)(1)³⁰¹
- Closely analyze the seasonality effects and revise the cost models to account for these effects
- Provide more data about peak-season operations to create an improved costing methodology
- Develop a new methodological approach that address peak-season costs, as well as deficiencies in allocating incremental costs to Competitive products³⁰²

The Commission held a video technical conference to consider issues raised by UPS Proposal One.³⁰³ After considering comments it had received, the Commission rejected UPS Proposal One.³⁰⁴ The Commission concluded that UPS Proposal One violates statutory requirements and does not provide any improvement to the current methodology.³⁰⁵ It found that UPS’s proposed multi-step approach for measuring “unexplained” peak-season costs contained numerous errors, and its application did not produce any reliable estimates of peak-season costs.³⁰⁶ It concluded that the Postal Service’s peak-season costs are currently reflected in the Postal Service’s costing models and should not be re-classified as incremental costs attributable to Competitive products.³⁰⁸

The Commission nevertheless found that it is appropriate and timely for the Postal Service to accelerate studies on peak-season costs. In that connection, the Commission noted that it has recently established a proceeding, discussed below, “to consider possible improvements to the quality, accuracy, or completeness of data provided by the Postal Service.”³⁰⁹

Docket No. RM2020-13 (Proposal Six)

Proposal Six³¹⁰ would establish a new methodology for estimating variabilities for three mail processing cost pools representing automated letter and flat sorting operations.³¹¹ The cost pools included in Proposal Six involve labor expenses associated with the automated distribution of letters and flats, which totaled \$2.3 billion in FY 2019.³¹² The current methodology partitioned these mail processing cost pools into activities assumed to be 100 percent volume-variable, and other activities assumed to be non-volume-variable.³¹³ It was based on “a general assumption that mail processing costs should vary in proportion with the volume of mail or number of articles processed.”³¹⁴

The current methodology has been used since Docket No. R71-1, and its origins predate the Postal Reorganization Act and the development of the automated mail processing technologies described in Proposal Six.³¹⁵ The Postal Service stated that the former Postal Rate Commission previously declined to adopt any empirical models for mail processing variability because of data and econometric issues.³¹⁶ However, the Postal Service explained that several factors merit reexamining variabilities for automated letter and flat sorting operations, including volume changes, the reliability of automated counts of mailpiece handlings, and the availability of machine utilization data.³¹⁷

The new methodology “is based on econometric analysis of workhour and workload data collected by the Postal Service on an ongoing basis.”³¹⁸ The proposed variabilities estimated using the new methodology would employ monthly Management Operating Data System (MODS) datasets compiled into a multi-year panel dataset.³¹⁹ The Postal Service asserted that the proposed variabilities would reduce FY 2019 volume-variable labor costs for the three mail processing cost pools by 8.3 percent



overall.³²⁰ The proposed methodology would enable the Postal Service to reevaluate and update these variabilities because the underlying data are produced in the course of Postal Service operations and are already included in the ACR.³²¹ This proceeding is currently pending before the Commission.

Docket No. RM2021-1 (Proposal Seven)

On November 9, 2020, the Postal Service filed Proposal Seven, which sought to update and improve the variabilities for certain types of purchased highway transportation to reflect recent operational changes.³²² The Postal Service explains that it made two major operational changes to its highway transportation network.³²³ First, it has increasingly relied on additional highway transportation during peak season.³²⁴ Second, it introduced Dynamic Route Optimization (DRO) contracts, a new type of contract that changes both the way highway transportation capacities are specified and how contractors are paid.³²⁵ The Postal Service states that it filed Proposal Seven consistent with the Commission's past recommendation to update variabilities after completing any major structural reorganization.³²⁶

The Commission approved Proposal Seven with one minor change and stated that as modified, Proposal Seven improves the accuracy and completeness of the Postal Service's data.³²⁷ The Commission found that "the updated econometric estimates of variabilities for specific types of purchased highway transportation are an improvement over those estimated variabilities

produced by the current methodology" and that Proposal Seven was responsive to the Commission's past recommendation.³²⁸ The Commission, however, re-estimated peak-season variabilities, after removing additional anomalous observations from the analysis dataset.³²⁹

Docket No. RM2021-7 (Proposal Four)

In Proposal Four, the Postal Service sought to replace the current methodology used to attribute Special Purpose Routes (SPR) delivery costs to products.³³⁰ Proposal Four would replace the current methodology, which relies on manual data collection sampling, with a new system that uses scan data from databases that record tracking information and employee time and attendance.³³¹ City carrier costs are developed for two route groups: (1) regular letter routes; and (2) SPRs, which are "street delivery activities generally located in dense urban areas that primarily include delivering parcels and collecting mail from designated collection points."³³²

The Commission approved Proposal Four because it would improve both the completeness and accuracy of the data used to distribute SPR costs.³³³ It found that "Proposal Four improves the completeness of the data used to develop distribution [keys] for SPR city carrier cost pools by more comprehensively sampling routes that deliver infrequently or irregularly."³³⁴ It stated that Proposal Four's proposed sample size of 26,000 carrier-days is an improvement because it greatly exceeds the current sample size of

1,000 manually-tested route-days.³³⁵ Thus, Proposal Four would likely generate more precise estimates of small-volume product costs because they would be sampled more frequently.³³⁶

The Commission also found that Proposal Four improves the accuracy of the data used to develop distribution keys for SPR city carrier cost pools because “the greater availability of data would allow the Postal Service to develop separate distribution keys for peak and non-peak periods, as well as to separate estimates by carrier subcategory.”³³⁷ It stated that Proposal Four would allow the Postal Service to reduce data collection costs because the new system would not incur labor costs for manual data collection.³³⁸ The Postal Service estimated that the new system would save \$200,000 per year.³³⁹

Other Proposals

In FY 2021, the Commission also approved a Postal Service proposal to implement a change that would simplify calculating and reporting of workshare discounts for drop-shipped USPS Marketing Mail carrier route flats.³⁴⁰ Other rulemaking dockets under consideration by the Commission during FY 2021 include:

- Postal Service petitions to make changes in the Revenue, Pieces, and Weight reporting methodology in terms of sample design, size and estimation procedures³⁴¹
- Proposed changes in the assignment of cost pools in the First-Class Mail cost avoidance model by reviewing the assignment of cost pools as fixed or proportional³⁴²
- Initiation of certain improvements in the treatment of surface and air transportation costs in the International Cost and Revenue Analysis³⁴³
- Changes to the First-Class Mail Letters cost model to disaggregate metered mail by machinability status – machinable and non-machinable as required by Commission in

its order approving Market Dominant rate adjustments under the new rules governing the Market Dominant Rate System³⁴⁴

Docket No. RM2022-1 (Priorities for Future Data Collection and Analytical Work)

On October 8, 2021, the Commission established a proceeding to set priorities for future data collection and analytical work.³⁴⁵ The purpose of this proceeding is “to consider possible improvements to the quality, accuracy, or completeness of data” the Postal Service provides in its reports filed with the Commission.³⁴⁶ The Commission explained that at a time when the Postal Service remains under considerable financial pressure, having accurate estimates of product costs is necessary to understand the net revenue consequences of the rates and discounts that the Postal Service selects.³⁴⁷ Setting priorities for future data collection and analytical work will help ensure accurate cost estimates and identify analytical principles that need to be changed. For example, in UPS Proposal One, the Commission found that accelerating studies on peak-season costs is appropriate and timely.³⁴⁸

The Commission stated it will develop an inventory of data collection and analysis needs, comprehensively evaluate these needs, and devise a plan for meeting these needs.³⁴⁹ It sought comments proposing areas that need further research and identifying improvements in data collection and analysis that should be implemented in the near term and long term.³⁵⁰ For near term proposals, comments were requested on which research topics should be prioritized, and what time frame would be feasible for completing the research.³⁵¹ This proceeding is currently pending before the Commission.

Other Proceedings

Several other proceedings were before the Commission in FY 2021 and early FY 2022: three complaint cases, three market tests, and two Post Office closing appeals. Each proceeding is described below.

Complaints

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 39.³⁵² Within 90 days after a complaint is filed, the Commission will issue an order that either: (1) finds the complaint raises at least one material issue of fact or law, and begin proceedings on the complaint; or (2) dismisses the complaint.³⁵³ In FY 2021 and early FY 2022, there were three complaints filed with the Commission.

COMPLAINT REGARDING 10-YEAR STRATEGIC PLAN

On March 23, 2021, the Postal Service published a 10-Year Strategic Plan announcing potential changes intended to achieve financial stability and service excellence.³⁵⁴ On October 7, 2021, 20 states and commonwealths (the States) filed a complaint alleging that the Postal Service's failure to submit its 10-Year Strategic Plan to the Commission for an advisory opinion violates 39 U.S.C. § 3661(b).³⁵⁵ Under section 3661(b) before making a change in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis, the Postal Service must seek an advisory opinion from the Commission within a reasonable time before the proposed change becomes effective.³⁵⁶

The States alleged that the Postal Service should have sought an advisory opinion from the Commission under section 3661(b) before adopting the 10-Year Strategic Plan because it adopts changes in the nature of postal services with nationwide effect.³⁵⁷ They asserted that the Postal Service's failure to request an advisory

opinion harms the States and their residents because the lack of input from the Commission and public on the 10-Year Strategic Plan "removes a critical safeguard designed to ensure Postal Service accountability."³⁵⁸ The States asked that the Commission order the Postal Service to request an advisory opinion on the entire 10-Year Strategic Plan to "ensure the Commission's review of these significant changes and provide the States and the broader public the opportunity to comment on them."³⁵⁹

On October 27, 2021, the Postal Service filed a Motion to Dismiss the States' complaint for failing to raise a material issue of fact or law that falls within the scope of the Commission's jurisdiction under 39 U.S.C. § 3662.³⁶⁰ It noted that the 10-Year Strategic Plan itself does not create any changes in the nature of postal services and instead announces anticipated strategies the Postal Service expects to pursue during the next several years.³⁶¹ It stated that it has sought or will seek an advisory opinion for the strategies in the 10-Year Strategic Plan that will make changes falling within the scope of section 3661.³⁶² The Postal Service asserted that the 10-Year Strategic Plan in its entirety does not fall within section 3661(b)'s scope, that section 3661(b) does not require the Commission to immediately review all initiatives anticipated in the 10-Year Strategic Plan, and that dismissing the complaint would be consistent with policies underlying section 3661(b).³⁶³

The States opposed the Postal Service's Motion to Dismiss on November 10, 2021.³⁶⁴ They asserted that the 10-Year Strategic Plan describes a series of strategies that would implement fundamental changes to postal services and operations and thus fall within the scope of section 3661(b).³⁶⁵ The States asserted the claim that changes in the 10-Year Strategic Plan likely implicate section 3661(b) is colorable because the 10-Year Strategic Plan describes changes in the "nature

of postal services” that will affect service on a substantially nationwide basis.³⁶⁶

On December 17, 2021, the Commission issued an order granting the Motion to Dismiss the States’ complaint.³⁶⁷ It found that “39 U.S.C. § 3661(b) does not require the Postal Service to request an advisory opinion on the entirety of the 10-Year Strategic Plan” for several reasons.³⁶⁸ First, the Commission determined that the 10-Year Strategic Plan by itself is not a change impacting service and thus did not fall within the scope of section 3661(b).³⁶⁹ Second, the Commission noted that the Postal Service has not yet announced or determined the effective dates for most of the initiatives in the 10-Year Strategic Plan.³⁷⁰ It stated that section 3661(b) and the Commission’s regulations “grant the Postal Service substantial discretion regarding the timing of a request for an advisory opinion and certainly do not require a request to be made before an initiative’s effective date has been established.”³⁷¹ In addition, the Commission discussed various other factors that supported dismissal of the States’ complaint, including the Postal Service’s discretion with regard to the scope of its requests for advisory opinions and the fact that the Commission had conducted proceedings reviewing specific initiatives contained in the 10-Year Strategic Plan.³⁷² The Commission addressed and rejected the remaining arguments in opposition to dismissal of the States’ complaint and concluded that the complaint failed to raise any material issues of fact or law and thus should be dismissed.³⁷³

COMPLAINT OF CHRISTOPHER S. SEARCY

On August 5, 2021, Christopher S. Searcy filed a complaint alleging that the Postal Service unlawfully suspended mail service to his mailbox due to risk to mail carriers caused by dogs.³⁷⁴ The Commission’s rules set forth procedures for resolving certain complaints through the rate or service inquiry process by forwarding the complaint to the Postal

Service for investigation.³⁷⁵ On August 9, 2021, the Commission issued an order referring the complaint to the Postal Service for investigation pursuant to the Commission’s rules for rate or service inquiries.³⁷⁶ It directed the Postal Service to advise the Commission in writing about the resolution of the complaint.³⁷⁷

The Postal Service subsequently filed a written status report stating that Mr. Searcy has not responded to written correspondence regarding attempts to resolve the complaint.³⁷⁸ On October 27, 2021, noting that it appeared unlikely that Mr. Searcy would respond before the expiration of section 3662(b)(1)’s 90-day deadline for Commission action, the Commission issued an order dismissing the complaint.³⁷⁹ It stated that the complaint neither explained how the Postal Service’s conduct violated 39 U.S.C. § 403(c) nor identified any material issues of fact or law at issue.³⁸⁰ For the reasons discussed above, the Commission dismissed the Complaint without prejudice.³⁸¹

COMPLAINT OF HAPPY TRAILS

On April 23, 2021, Happy Trails Community Association, Inc. (Happy Trails) filed a complaint asserting that the Postal Service violated section 403(c).³⁸² Members of Happy Trails owned lots within a community that the Postal Service classified as a Transient Development under the Postal Operations Manual.³⁸³ Consequently, Happy Trails members were not eligible for individual mail delivery and forwarding service.³⁸⁴ In its complaint, Happy Trails claimed that the Postal Service’s classification decision constituted undue or unreasonable discrimination because as a result of that classification, the Postal Service would not provide individual mail delivery and forwarding service to Happy Trails members.³⁸⁵

The Postal Service filed a motion to dismiss the complaint.³⁸⁶ On June 17, 2021, Happy Trails filed a notice to voluntarily dismiss its complaint

with prejudice because it had settled with the Postal Service to resolve this matter.³⁸⁷ The Commission then issued an order closing Docket No. C2021-1 because the issues raised in the complaint were resolved.³⁸⁸

Market Tests and Post Office Closing Appeals

MARKET TESTS

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 being subject to the applicable requirements of 39 U.S.C. §§ 3622, 3633, or 3642, or the regulations promulgated under those sections.³⁸⁹ Before initiating a market test, the Postal Service must provide at least 30 days advance notice to the Commission through a filing containing certain information.³⁹⁰

There were three active market tests in FY 2021:

- 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 Box³⁹¹
- 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 period³⁹²
- Plus One is an advertising card that will be mailed as an add-on mailpiece with a USPS Marketing Mail Letters marriage mail envelope containing multiple advertising mailpieces³⁹³

Market tests are conducted over a 24 month period unless the Commission grants the Postal

Service's request to extend the market test by up to 12 months.³⁹⁴ On June 4, 2021, the Commission authorized extending the Plus One market test for another 12 months, finding that the Postal Service complied with applicable statutory and regulatory requirements.³⁹⁵ On November 10, 2021, the Postal Service provided notice of its request to convert the Plus One experimental product into a permanent offering on the MCS.³⁹⁶

POST OFFICE CLOSING APPEALS

The PAEA permits any person served by a Post Office to appeal its closing or consolidation to the Commission.³⁹⁷ In FY 2021, the Commission considered appeals of the Postal Service's decision to close two contractor-operated retail facilities.³⁹⁸ In both cases, the Postal Service filed a motion to dismiss the appeal for lack of jurisdiction.³⁹⁹ The Commission granted both motions and dismissed the appeals with prejudice.⁴⁰⁰ It noted that its jurisdiction to consider appeals of contractor-operated facilities is limited to facilities that are the "sole source" of postal services for the community.⁴⁰¹ Because the contractor-operated facilities at issue were not the "sole source" of postal services in their community, the Commission dismissed both appeals with prejudice.⁴⁰²



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.⁴⁰³

Mailers and the Postal Service filed petitions for review of Order No. 5763, which adopted the final rules modifying the regulations governing the Market Dominant Rate System.⁴⁰⁴ On November 12, 2021, the D.C. Circuit issued its opinion denying the Mailers' and the Postal Service's petitions for review and rejecting all arguments to overturn the final rules.⁴⁰⁵ The court concluded that "the Commission acted within its authority under the [PAEA], and that its predictive judgments and economic conclusions satisfy the Administrative Procedure Act's requirements of reasoned decision-making."⁴⁰⁶ It found that the scope of the Commission's authority, when acting under 39 U.S.C. § 3622(d) (3), is broader than the scope of its general authority to revise regulations governing the Market Dominant Rate System periodically.⁴⁰⁷

Responding to arguments that the final rules were arbitrary and capricious, the D.C. Circuit noted that its review of the Commission's technical policy judgments was deferential considering that the PAEA expressly entrusted the Commission with striking a balance between multiple, sometimes competing, objectives.⁴⁰⁸ The court concluded that "the Commission articulated a rational connection between the

statutory objectives and the decision it made[.]" and "Mailers offer[ed] no basis for the court to conclude that the decision was arbitrary and capricious in meeting the statutory objectives."⁴⁰⁹ The D.C. Circuit also found that the Commission adequately justified its decisions to adopt the density-based rate authority and not to reopen the record to consider the effects of the COVID-19 pandemic.⁴¹⁰

Additionally, the D.C. Circuit rejected the arguments advanced by the Postal Service.⁴¹¹ It stated "[t]he Commission's decision not to implement a rate reset at this time was thus reasonable and reasonably explained."⁴¹² The court found reasonable both the Commission's selection of a Market Dominant Rate System that balanced the competing objectives of the PAEA and the Commission's decision to address the Postal Service's financial problem incrementally, rather than in a single rulemaking.⁴¹³ For these reasons, the court denied the petitions for review.⁴¹⁴

The D.C. Circuit also considered an appeal of a Commission order dismissing a Post Office closing appeal. On February 10, 2021, the Commission dismissed a petition for review filed by the City of Spanish Fort, Alabama appealing the Postal Service's decision to close the Spanish Fort community Post Office.⁴¹⁵ The City of Spanish Fort appealed the Commission's decision to the D.C. Circuit, which dismissed the appeal.⁴¹⁶

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.⁴¹⁷ 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.⁴¹⁸ 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.⁴¹⁹

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 2020.⁴²⁰

Pursuant to section 407(c)(1) and its regulations, the Commission established Docket No. IM2020-1 in FY 2020 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.⁴²¹ The Commission subsequently posted proposals and a background document for public comment.⁴²² Because the UPU later postponed the 27th UPU Congress until August 2021 due to the COVID-19 pandemic,⁴²³ the Commission revised its comment deadline to May 14, 2021.⁴²⁴

On July 9, 2021, the Commission provided its views to the Secretary of State,⁴²⁵ on three proposals for the 27th UPU Congress that fell within the scope of 39 U.S.C. § 407(c)(1) as they established rates or classification for the Market Dominant Inbound Letter Post Product.⁴²⁶ The Commission found that one proposal to require tracking for Inbound Letter Post to be consistent with the standards and criteria established by the Commission under 39 U.S.C. § 3622. The Commission also found that two proposals that established rates for the delivery of Inbound Letter Post, known as terminal dues, were inconsistent with the standards and criteria established by the Commission under 39 U.S.C. § 3622 based on a fact-specific balancing of the objectives and factors enumerated therein.

In FY 2021, the Commission also served in an advisory capacity to the Department of State in the formulation of U.S. government positions on other proposals before the 27th UPU Congress. These proposals related to remuneration for all international mail products and UPU reform towards the achievement of United States international postal policies in 39 U.S.C. § 407(a).



UNITED STATES POST OFFICE

CHAPTER IV | Universal Service Obligation and Postal Monopoly

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.⁴²⁷

The postal monopoly is the Postal Service’s exclusive right to carry and deliver certain types of mail and deposit mail into mailboxes.⁴²⁸ 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.⁴²⁹

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.

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:⁴³⁰

- 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 2016 to FY 2020.⁴³¹

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.⁴³²

On December 10, 2020, the Commission initiated a public inquiry in Docket No. PI2021-1 and requested suggestions for modifications and enhancements to the methodology of estimating the cost of the USO to help the Commission determine whether all of the assumptions underlying the methodology remain valid.⁴³³ Materials provided by the Postal Service in response to information requests to date have been used to make refinements in the calculation of some elements of the cost of the USO, as described below.

Table IV-1: Estimated USO Cost (\$ Billions)

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Postal Services to Areas of the Nation the Postal Service Would Not Otherwise Serve	0.77	0.76	0.71	0.67	0.62
Estimated Revenue Not Received Due to Free or Reduced Rates	1.96	1.89	1.79	1.71	1.64
Other Public Services or Activities ^a	3.17	3.13	2.92	2.36	2.37
TOTAL	5.90	5.78	5.41	4.74	4.63

^a The FY 2018, FY 2019, and FY 2020 figures include the net cost of the Postal Inspection Service. The sum of columns may not equal total due to rounding.

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] if the Postal Service were not required to provide prompt, reliable, and efficient services to patrons in all areas and all communities, including as required under the first sentence of [39 U.S.C.] section 101(b)[.]⁴³⁴

The Commission determines these costs by combining the estimated costs of maintaining small Post Offices, the Alaska Air Subsidy, and Group E Post Office (PO) Boxes. Table IV-2 compares the costs of each one from FY 2016 to FY 2020.

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 2016 and FY 2020. This increase is mainly due to the annual increase in 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)

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Maintaining Small Post Offices ^a	610	590	551	526	470
Alaska Air Subsidy	136	135	120	114	113
Group E Post Office Boxes	20	35	35	34	34
TOTAL	765	759	706	675	616

^a The Maintaining Small Post Offices cost figures are higher than previous Annual Reports due to updates and refinements described in Table IV-3.

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.”⁴³⁵ The Postal Service uses Cost Ascertainment Group (CAG) classifications A to L to categorize Post Offices based on revenue generated.⁴³⁶ Small Post Offices are those that fall within CAG K and L classifications.⁴³⁷

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 PO 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 PO Box.⁴³⁸

Table IV-2 lists the estimated costs of maintaining small Post Offices from FY 2016 to FY 2020. 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.⁴³⁹

Table IV-3 disaggregates the costs of maintaining small Post Offices by component and illustrates the recent large shifts among these components. The clerks’ and Postmasters’ costs for the 5-year period in Table IV-3 are higher than previous Annual Reports due to two changes in the calculations: cost data from the National Consolidated Trial Balance are used, and clerk piggyback costs are added to clerks’ salary costs.⁴⁴⁰ Rural carrier delivery services and PO Box revenues foregone in Table IV-3 are also higher than previous Annual Reports due to the updating of the current number of PO Boxes used to calculate these costs. Additionally, rural carriers providing retail services costs are also lower than figures shown in previous Annual Reports due to the current lower number of estimated retail visits used to calculate costs.⁴⁴¹

**Table IV-3: Estimated Cost Savings from Closing CAG K and L Post Offices
Derivation of Updated Costs of Maintaining Small Post Offices (\$ Millions)**

Select CAG K and L Post Offices Annual Operating Costs	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
CAG K and L Postmasters ^a	73	71	67	64	93
Postmaster Relief/Leave Replacements	20	20	22	21	29
Clerks ^b	629	607	564	543	447
Total Potential Operating Costs Saved (If CAG K and L Post Offices Closed)	722	698	654	627	569
Cost Savings Adjustment^c	FY Cost Savings Adjustments				
Rural Carrier Now Provides Retail Services Cost ^d	13	10	8	8	8
Rural Carrier Now Provides Delivery Service Cost ^e	52	51	49	49	48
Post Office Boxes Revenue Foregone ^f	47	47	45	44	42
Total FY Cost Savings Adjustment	112	108	103	101	99
Cost of Maintaining Small Post Offices (Potential Operating Costs Saved Less Cost Savings Adjustments)	610	590	551	526	470

Note: The sum of individual row components may not equal totals due to rounding. Estimated costs of Maintaining Small Post Offices for FY 2016 through FY 2019 differ from previous Annual Reports because a more complete data source for Postmasters' and clerks' costs was identified from the USPS National Consolidated Trial Balance (NCTB) data and the development and addition of piggyback costs for clerks. Additionally, estimated costs of Maintaining Small Post Offices inputs differ due to updated inputs for the number of PO Boxes and retail visits incorporated into the FY 2016 through FY 2020 calculations. An upcoming library reference in Docket No. PI2021-1 will detail the sources and methodologies used.

^a Postmasters costs' include piggyback costs for overhead and other personnel and non-personnel-related costs.

^b Clerks costs' include piggyback costs for overhead and other personnel and non-personnel-related costs.

^c The cost savings adjustments are used to reduce the potential operating costs saved as there would presumably be an increase in rural carrier costs and PO Box revenue foregone (if the small Post Offices were to close).

^d The estimated fiscal year number of CAG K and L retail transactions was approximated using the most currently available data for FY 2020 and FY 2019. The approximated FY 2019 number of retail visits was used as a proxy for FYs 2016 through 2018 to develop the estimated cost of retail services now provided by rural carriers (if the small Post Offices were to close).

^e The current number of occupied Market Dominant CAG K and L PO Boxes was used to estimate the number of new delivery points (for those CAG K and L PO Boxes customers who would now no longer have delivery to the PO Box if the small Post Offices were to close) for the fiscal years shown.

^f The current number of occupied Market Dominant CAG K and L PO Boxes was used with the respective fiscal year Market Dominant PO Box unit revenue to develop revenues foregone.

Sources for this table are based on the following: NCTB data (clerks and postmasters operating costs); Postmaster relief/leave replacements; rural carrier retail unit and delivery service costs; clerk cost by function (for piggyback cost development); piggyback factors; retail visits; and PO Boxes. This information was filed in past Annual Compliance Reports (ACRs) and in Docket No. PI2021-1. See also *FY 2020 Annual Report* at 49.

National Consolidated Trial Balance Data (clerks and postmasters operating costs): Commission analysis of respective fiscal year ACRs and NCTB data (sub-account 104 and 105 for clerks, sub-account 101 for postmasters) for CAG K and L Post Offices.

Postmaster Relief/Leave Replacements: Library Reference 5, Cost Segments and Components Reconciliation to Financial Statement and Account Reallocation, tab "seg 1" in the respective fiscal year ACRs.

Rural Carrier Retail Unit and Delivery Service Costs: Rural Mail Count is based on the following: Library Reference 40 in Docket No. ACR2016, ACR2017, and ACR2018; and Rural Mail Count updates for FYs 2019 and 2020 provided in CHIR responses in Docket No. PI2020-1.

Clerks Costs by Function (for Piggyback cost development): CAG K and L clerk function proportions are based on the activities of sampled clerks in the In-Office Cost System Post Offices in CAGs K and L. FY 2017 clerk function proportions were provided in Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 21, March 5, 2018. FY 2019 and FY 2020 clerk function proportions were provided in Docket No. PI2021-1, Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, September 24, 2021 (Docket No. PI2021-1, Response to CHIR No. 1).

Piggyback Factors: Library Reference 24 in the respective fiscal year ACRs.

Retail Visits: The number of approximated CAG K and L Post Offices retail transactions inputs for FY 2019 and FY 2020 was provided in Docket No. PI2021-1, Response to CHIR No. 1.

PO Boxes: *Id.* question 2. Respective fiscal year Market Dominant PO Box unit revenues were developed from Library Reference 4 Market Dominant billing determinants in Docket Nos. ACR2016, ACR2017, ACR2018, ACR2019 and ACR2020.

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.⁴⁴² In FY 2020, there was an increase of \$1.4 million over the FY 2019 Alaska Air Subsidy cost. The larger \$14.1 million increase in the Alaska Air Subsidy cost between FY 2018 and FY 2019 was due to increases in air volumes and fuel costs.⁴⁴³

GROUP E POST OFFICE BOXES

Group E PO Boxes are provided free of charge to customers when the Postal Service does not offer carrier delivery to their physical address.⁴⁴⁴ To meet its USO delivery obligation,⁴⁴⁵ the Postal Service makes Group E PO 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.”⁴⁴⁶ In FY 2011, the Commission approved treating the cost of providing Group E PO 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.⁴⁴⁷ Consequently, the Commission included the cost of Group E PO Boxes, which are primarily facility-related, in estimating the USO Cost. In FY 2020, servicing Group E PO Boxes cost approximately \$20 million. In FY 2020, the Group E PO Boxes cost was impacted by a new Postal Service facility analysis that decreased measured PO Box space costs.⁴⁴⁸

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.]”⁴⁴⁹ 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 2016 and FY 2020.

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

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Preferred Rate Discounts Net of Costs ^a	1,189	1,223	1,172	1,104	1,105
Periodicals Losses	775	671	614	608	536
TOTAL	1,964	1,895	1,786	1,712	1,641

^a The FY 2018 through FY 2020 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). The sum of columns may not equal total due to rounding.

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.⁴⁵⁰ 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 2020, preferred rate discounts net of costs were \$1.189 billion.

Periodicals Losses

Periodicals Losses are the annual amount by which Periodicals’ attributable cost exceeds revenue.⁴⁵¹ The PAEA’s price cap does not allow the Postal Service to fully recover Periodicals Losses through rate increases.⁴⁵² 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 Periodicals Losses in FY 2020 increased by the largest dollar amount in the FY 2016-FY 2020 period. Between FY 2019 and FY 2020, Periodicals Losses increased by approximately \$100 million. FY 2020 revenue from Periodicals only covered 56.9 percent of the attributable cost of the Periodicals class, a decrease from 64 percent in FY 2019.

The Periodicals class has not covered its attributable cost since the PAEA was enacted.⁴⁵³ The Commission recently took steps to address this issue by finalizing rules adopting changes to the regulations governing the Market Dominant Rate System.⁴⁵⁴ 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.⁴⁵⁵ 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 2020 ACD, the Commission directed the Postal Service to provide an updated version of the Periodicals Pricing Report in its

FY 2021 ACR and include an analysis of how the pricing in Docket No. R2021-1 impacted the cost, contribution, and revenue of Periodicals in FY 2021, and whether the new pricing improved the efficiency of Periodicals pricing in FY 2021.⁴⁵⁶

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.”⁴⁵⁷ 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 2016 to FY 2020.

Table IV-5: Other Public Services or Activities the Postal Service Would Not Provide But for Legal Requirements (\$ Millions)⁴⁵⁸

Public Service or Activity	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Six-Day Delivery	2,518	2,465	2,259	2,204	2,191
Uniform First-Class Mail Rates	52	71	99	52	78
Uniform Media Mail/Library Mail Rates	94	124	97	99	102
Postal Inspection Service (Net Cost) ^a	503	471	462	N/A	N/A
TOTAL	3,167	3,131	2,916	2,355	2,371

^a The Commission began including the net cost of the Postal Inspection Service in FY 2018.

Six-Day Delivery

Since 1984, appropriations bills have included a provision requiring the Postal Service to continue providing Six-Day Delivery.⁴⁵⁹ 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 2016 to FY 2020.⁴⁶⁰ In FY 2020, the estimated cost of providing Six-Day Delivery was approximately \$2.518 billion, an increase from the estimated FY 2019 cost of \$2.465 billion.

Uniform Rates

Rates for First-Class Mail must be uniform throughout the United States.⁴⁶¹ 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 \$71 million in FY 2019 to \$52 million in FY 2020.

Media Mail/Library Mail rates must be uniform for mail of the same weight and must not vary with the distance transported.⁴⁶² 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.

In FY 2020, the estimated cost of providing uniform Media Mail/Library Mail rates was approximately \$94 million, a decrease from the estimated FY 2019 cost of \$124 million. The decrease in cost between FY 2019 and FY 2020 was due to an increase in the Media Mail/Library Mail unit contribution and a decrease in the unit contribution of Bound Printed Matter in FY 2020.⁴⁶³

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).⁴⁶⁴ The Postal Inspection Service enforces more than 200 federal laws that relate to crimes

involving the postal system, its employees, and its customers.⁴⁶⁵ 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.”⁴⁶⁶ 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.⁴⁶⁷ 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 2020, the net cost of the Postal Inspection Service was approximately \$503 million, an increase from the estimated FY 2019 net cost of \$471 million.⁴⁶⁸

Value of the Postal Monopoly

The mailbox monopoly is the Postal Service’s exclusive right to deliver to and collect from mailboxes.⁴⁶⁹ The letter monopoly is the Postal Service’s exclusive right to carry and deliver most addressed, paper-based correspondence.⁴⁷⁰ 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.⁴⁷¹ 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.⁴⁷² After receiving six sets of initial comments and three sets of additional comments from postal stakeholders, the Commission is currently considering these comments and the most appropriate revisions to the methodology.⁴⁷³

The Commission uses the model described in the USO Report to update current estimates.⁴⁷⁴ The model assumes that the competitor will “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 exceeding 24 pages, and letters exceeding 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.⁴⁷⁵ 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.⁴⁷⁶ 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.⁴⁷⁷ The FY 2016 through FY 2020 postal and mailbox monopoly estimates calculated using the base

Table IV-6: Base Case Model Values of the Postal and Mailbox Monopolies (\$ Billions)⁴⁷⁸

	FY 2020 ^a	FY 2019 ^a	FY 2018 ^a	FY 2017	FY 2016
Postal Monopoly	3.82	4.72	4.53	5.34	5.68
Mailbox Monopoly	0.86	0.94	1.03	1.35	1.24

^a FY 2018 through FY 2020 values are not comparable to values for FY 2016 and FY 2017. FY 2018 through FY 2020 values account for First-Class Package Service being moved to the Competitive products category and are adjusted to the respective fiscal year delivered mail volume estimates (as estimated by the City Carrier Cost System (CCCS) and the Rural Mail Count and Rural Carrier Cost System (RCCS)). 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 as well as estimated delivered mail volumes were not adjusted to the CCCS and RCCS national estimates.

case model assumptions are presented in Table IV-6. The large reduction in the value of the postal monopoly between FY 2019 and FY 2020 is due primarily to the decrease in USPS Marketing Mail volume.

The Commission also presents the FY 2020 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).⁴⁷⁹

Table IV-7 illustrates the impact on the FY 2020 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.⁴⁸⁰ 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 2020 Value of the Postal and Mailbox Monopolies (\$ Billions)⁴⁸¹

	Low	Base Case	High
Postal Monopoly	0.10 ^a	3.82 ^b	8.26 ^c
Mailbox Monopoly	0.01 ^d	0.86 ^e	1.89 ^f

^a Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%

^b Discount 10%, Delivery Days 3, Entrant’s Cost Advantage 10%, Contestable Volume 100%

^c Discount 0%, Delivery Days 1, Entrant’s Cost Advantage 30%, Contestable Volume 150%

^d Discount 20%, Delivery Days 6, Entrant’s Cost Advantage 0%, Contestable Volume 50%

^e Discount 10%, Delivery Days 1, Entrant’s Cost Advantage 10%, Contestable Volume 100%

^f 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.⁴⁸² 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.⁴⁸³ As compared to the postal monopoly estimates in the USO Report, the largest dollar change in the estimated FY 2020 postal monopoly values are in the “high” model estimates (\$7.10 billion in the USO Report versus \$8.26 billion in FY 2020) and the base case model estimates (\$3.48 billion in the USO Report versus \$3.82 billion in FY 2020).⁴⁸⁴ 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 2020.

As compared to the mailbox monopoly estimates in the USO Report, the FY 2020 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.⁴⁸⁵



CHAPTER V | Public Affairs

The Commission's Office of Public Affairs and Government Relations (PAGR) is a significant resource in support of public outreach and education; complaint processing; media relations; and liaison with the U. S. Congress, the Administration, the Postal Service, and other government agencies. This office informs and advises commissioners and Commission staff on legislative issues and policies related to the Commission and the Postal Service. PAGR staff also coordinate the preparation of both congressional testimony and responses to congressional inquiries concerning Commission policies and activities. PAGR is the primary office assisting the general public.

Consumer Relations - Comments and Inquiries

Inquiries by Source

In Fiscal Year 2021, PAGR received over 14,000 questions, suggestions, comments, and inquiries. The greatest percentage of these were received through the online "Contact PRC" link on the Commission's website and by phone. The remaining correspondence was submitted by hardcopy mail. This year saw a 120 percent increase in the comments received from the general public in response to proposed operational changes announced by the Postal Service (from 6,435 to 14,149). Sixty-four percent of this contact occurred in the third quarter, which is the same quarter the Postal Service filed its first proposed Nature of Service case (N2021-1) on April 21, 2021.

Table V-1: FY 2021 Number of Inquiries Received by Contact

Quarter	1	2	3	4	Total
Contact	1,834	1,527	9,009	1,779	14,149
Email	1,618	1,301	8,366	1,567	12,852
Phone	175	181	370	121	847
Letters	41	45	273	91	450

Commission Order No. 195 directs the Postal Service to respond to rate and service inquiries that the Commission forwards to the USPS 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 inquiries they received. These reports are available on the Commission's website at www.prc.gov, under the USPS Reports tab.

Inquiries by Issue

Consistent with prior reporting, mail that is delayed, misdelivered, and undelivered remains the leading complaint type. There was also a slight increase in inquiries related to collection box schedules and incorrect signage.

Inquiries by Location

In FY 2021, a review of the inquiries referred to the Postal Service for escalated resolution revealed that an above average number of service related inquiries originated in the Illinois 1, Georgia, Indiana, Maryland, Florida 2, and New York 1 Districts.

Table V-2: FY 2021 Number of Inquiries Received by Issue

Top Issue	TOTAL
Delayed Mail	65
Misdelivered Mail	29
Carrier not making an initial attempt to deliver packages	26
Mailbox Requirement	23
Collection Box – Incorrect Time/Schedule	23
Missing Packages	17
Employee Behavior	16
Carrier not delivering mail everyday	15
Misdelivery - Receiving others mail	15
Retail Lobby Access - Not open 24-hours	13
Carrier/LPO Suspended Delivery	13

Table V-3: FY 2021 Number of Inquiries Received by Location

District	Number Received	Top Issue
Illinois 1	22	Collection Box – Incorrect Time/Schedule
Georgia	18	Carrier not delivering mail everyday
Indiana	16	Collection Box – Incorrect Time/Schedule
Maryland	13	Not receiving forwarded mail
Florida 2	12	Letters delayed in the mail
New York 1	12	Carrier not making an initial attempt to deliver packages
Wisconsin	12	Collection Box schedule
Florida 3	11	Carrier not delivering mail everyday
North Carolina	11	LPO requesting residents to move mailbox
Texas 1	11	Carrier not making an initial attempt to deliver packages

CHAPTER VI | Administration



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 this department 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). OSA operates with a small staff that handles all agency operations, including information technology, financial management and budget, records and data management, and workforce development.

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Information Technology

Focusing on high-risk areas of concern, the Commission's management and Information Technology staff have made significant advancements in the agency's cybersecurity posture over the past fiscal year, while also managing new threats and challenges to its operations. This past fiscal year, by concentrating resources on improving its security posture, the Commission was able to complete its first Security Assessment and Authorization and take action towards resolving vulnerabilities. The Commission also onboarded a new Chief Administrative Officer (CAO) experienced in cloud technology and its first cybersecurity professional/ CISO to support the Commission's efforts. The Commission continues to collaborate with the Department of Homeland Security (DHS) to identify and address risks,

and to improve its cybersecurity posture. IT cybersecurity and management staff have also expanded the education of employees about the importance of safeguarding the Commission's IT infrastructure, applications, and data.

Throughout FY 2021, the Commission's IT team worked to ensure the continuity of the Commission's essential IT functions, supporting the agency's staff on 100 percent telework. Expanded by new hires, IT staff transitioned the Commission's internet service provider, firewall, and VPN services – resulting in significant cost reductions to the Commission and increasing visibility on service operations. In addition to these cybersecurity and infrastructure improvements, the Commission began expanding and addressing its treatment of privacy issues for

internal users and external customers.

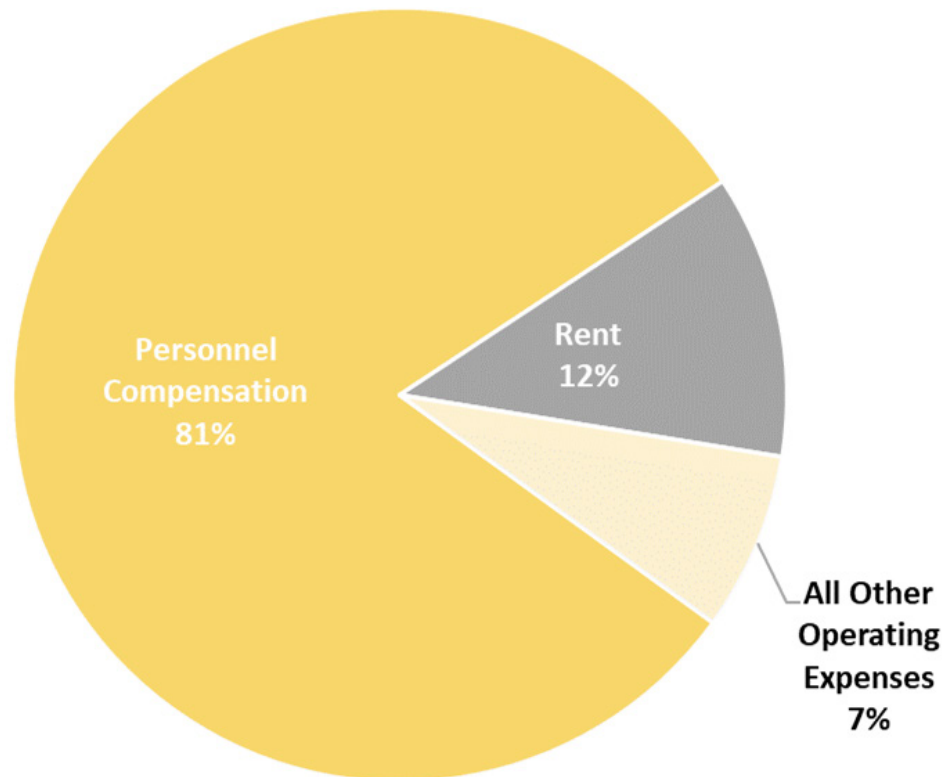
Despite these advancements, the Commission has been designated “At Risk” by the Department of Homeland Security (DHS) CIO metrics. In March 2021, the Commission was affected by four previously undisclosed Microsoft Exchange vulnerabilities that only pertained to Microsoft customers using an on-premises Exchange solution. Although the Commission

was targeted by an Advanced Persistent Threat (APT) actor, ultimately no agency services or infrastructure components were compromised; however, significant resources were expended to resolve this issue. In consultation with the Cyber-Security Infrastructure Security Agency (CISA), the Commission upgraded its IT service operations and transitioned critical services to the cloud.

Financial Management and Budget

The Commission continues to cost-effectively and efficiently work within its budget: the FY 2021 appropriation was \$17,000,000. With the addition of prior year balances, the Commission’s total expenditures totaled \$17,541,665. Personnel compensation accounted for 81 percent of expenditures; rent accounted for 12 percent of expenditures; and the remaining 7 percent of expenditures was for all other operating expenses including IT, consulting services, and communications. Figure VI-1 below shows the distribution of the Commission’s expenditures for FY 2021.

Figure VI-1: Postal Regulatory Commission, FY 2021 Annual Budget Expenditures



Records and Data Management

Committed to transparency, accountability, and open government, the Commission endeavors to provide the public with a view into its operations as it regulates the U.S. Postal Service. During FY 2021, the Commission:

- Started a YouTube channel to better facilitate public viewing of its proceedings during the continued pandemic/remote work situation. Two events were streamed and posted: the hearing on the N2021-1 case and a technical conference for N2021-2
- Processed 27 FOIA requests
- Received and published more than 480 comments and statements of position on N2021-1, filed predominantly by members of the mailing public
- Opened 303 new dockets and processed a total of 4,353 filings

Records management and data governance have come to the forefront during this continued

remote work environment; as such, the Commission is reconsidering how much space – physical and digital – is needed to accommodate not only its employees, but also all records generated in the course of employees' Federal work. In accordance with the National Archives and Records Administration requirement that agencies transition to using and retaining only electronic records, OSA staff began updating and overhauling the Commission's records management policy to better address how the agency handles, stores, and disposes of its documents.

OSA privacy staff also worked on assembling a new policy explicitly defining how the Commission will handle privacy issues relating to its recordkeeping going forward, both for staff and for external customers. This policy and its associated framework for privacy impact assessments, privacy threshold analyses, and system of records notices will be implemented during FY 2022.

Workforce Development

The Commission's workforce is its primary asset, and Goal 4 of the 2017-2022 Strategic Plan focuses on the recruitment, development, and retention of a diverse, high-performing workforce. The Commission's workforce goal for FY 2022 is to enhance its human capital planning and alignment, increase essential training and professional development, and improve recruitment strategies. This work will focus on retaining and restoring the Commission's workforce by filling mission-critical positions, providing essential professional development and training to support the Commission's important work.

The Commission has maintained its commitment to equal employment opportunity (EEO) in its initiatives to recruit, develop, and retain a skilled, high-achieving, and diverse workforce. To this end, the Commission provides annual training

in EEO and the NO FEAR Act and supports a Diversity & Inclusion Committee, which offers various informative essays and announcements throughout the year to bring staff's attention to the achievements and aspirations of a diverse group of Americans. In FY 2021, women and minorities accounted for 56 percent and 30 percent, respectively, of its workforce, while women filled 44 percent of the agency's executive positions. Over the course of FY 2021, the Commission had zero EEO complaints (formal and informal) filed.

The Commission prides itself on offering a flexible and safe workplace, and normally provides the ability for employees to participate in its Alternative Work Schedule program and Telework program. However, since the declaration of the COVID-19 pandemic in March 2020, the Commission moved to 100

percent reliance on remote work and electronic systems to perform its mission. This required a shift in focus and support from its physical office space to a fully remote environment. As noted in the Commission's Federal Employee Viewpoint Survey (FEVS) results, 100 percent of participating Commission employees agreed that during the COVID-19 pandemic, senior leaders demonstrated a commitment to employee health and safety.

The Commission's 2020 FEVS results indicated that the agency continues to build on over four years of steadily improving results: making progress in the areas of employee engagement, employee satisfaction, and inclusion. The FY 2020 response rate was 94 percent, an eighteen percentage point increase over last year's FEVS response rate, and fifty percentage points higher than the government-wide average response rate of 44 percent. The Employee Engagement Index score, which evaluated leaders, supervisors,

and intrinsic work experiences within the Commission, came in at 88 percent – well above the average of 69 percent among the other very small Federal agencies and the government-wide average of 71 percent. Two of the 36 questions showing a positive increase from the last FEVS results were “In my work unit, differences in performance are recognized in a meaningful way” and “My work gives me a feeling of personal accomplishment.” Commission leadership takes great pride in the fact that employees feel personally rewarded for their hard work. These findings validate the Commission's determination to provide flexibility, accommodation, and safety in its workplace.

1. Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).
2. 39 U.S.C. § 3651(a).
3. 39 U.S.C. § 3642(b)(1). Postal Service products are categorized as either Market Dominant or Competitive. “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).
4. 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).
5. 39 U.S.C. § 3642(b)(1). Examples of Competitive products include Priority Mail, Priority Mail Express, and First-Class Package Service.
6. 39 U.S.C. § 3622(b).
7. Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43); *See* Docket No. RM2007-1, Errata Notice Concerning Order No. 43, October 31, 2007.
8. 39 U.S.C. § 3651(a).
9. 39 U.S.C. § 3622(d)(3).
10. Docket No. RM2017-3, Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 20, 2016 (Order No. 3673).
11. Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017 (Order No. 4257).
12. Order No. 4257 at 17.
13. *Id.* at 22-23.
14. *Id.* at 3-4.
15. Workshare discounts provide reduced rates for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform. Docket No. ACR2020, *Annual Compliance Determination Report* Fiscal Year 2020, March 29, 2021, at 11 (FY 2020 ACD). These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. *Id.* Avoided costs are the costs the Postal Service would have incurred if it had performed the worksharing activity instead of the mailer. Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, July 19, 2021, at 5 n.5 (Order No. 5937).
16. Order No. 4257 at 48, 145-46. Attributable costs are “the direct and indirect postal costs attributable to [a] product through reliably identified causal relationships.” 39 U.S.C. §§ 3633(a)(2), 3631(b). Attributable costs are discussed in the “Rate Adjustments – Competitive Products” section below.
17. Order No. 4257 at 148, 221-26.
18. *Id.* at 148, 168-71, 247.
19. *Id.* at 236, 248.
20. *Id.* at 4-5, 250, 273.
21. Docket No. RM2017-3, Notice of Proposed Rulemaking for the System for Regulating Rates and

Classes for Market Dominant Products, December 1, 2017 (Order No. 4258).

22. Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019, at 11 (Order No. 5337). The revised rules are discussed in the *FY 2019 Annual Report*. Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2019*, January 21, 2020, at 17-18 (*FY 2019 Annual Report*).
23. Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763).
24. Order No. 5763 at 72-73.
25. *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.
26. Order No. 5763 at 100.
27. *Id.* at 182.
28. *Id.*
29. *Id.* at 186.
30. *Id.* at 159-60, 190-91, 196.
31. *Id.* at 198.
32. *Id.* at 19.
33. *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.*
34. *Id.* at 200.
35. *Id.* at 23, 228, 242-44, 267.
36. *Id.* at 166.
37. Docket No. RM2021-2, Advance Notice of Proposed Rulemaking Regarding Performance Incentive Mechanism, January 15, 2021, at 1, 3 (Order No. 5816); *See* Order No. 5763 at 166.
38. Order No. 5816 at 1.
39. *Id.* at 4.
40. *Id.* at 5-14.
41. Docket No. RM2021-2, Motion of the United States Postal Service to Hold Proceeding in Abeyance, June 24, 2021 (Docket No. RM2021-2 Motion). The Postal Service filed this motion before the D.C. Circuit issued its decision dismissing the appeals.
42. Docket No. RM2021-2 Motion at 2.
43. Docket No. RM2021-2, Response of the Public Representative in Support of Postal Service Motion, June 28, 2021; Docket No. RM2021-2, Statement of the Association for Postal Commerce in Support of USPS Motion for Abeyance, June 25, 2021.
44. Docket No. RM2021-2, Order Granting Motion to Hold Proceeding in Abeyance, July 2, 2021 (Order

No. 5928). The Commission issued Order No. 5928 before the D.C. Circuit issued its decision dismissing the appeals.

45. 39 U.S.C. § 3633(a)(3). Institutional costs are the costs that remain after attributing all reliably identifiable, causally-related product-level and group-level costs to products. Docket Nos. RM2017-1 and RM2022-2, Supplemental Notice of Proposal Rulemaking and Order Initiating the Third Review of the Institutional Cost Contribution Requirement for Competitive Products, November 18, 2021 (Order No. 6043). Requirements for Competitive products are discussed in the “Rate Adjustments – Competitive Products” section below.
46. Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019, at 18 (Order No. 4963).
47. 39 U.S.C. § 3633(b).
48. *Id.*
49. *See* Order No. 4963.
50. *United Parcel Service, Inc. v. Postal Reg. Comm’n*, 955 F.3d 1038, 1041, 1049 (D.C. Cir. 2020). These proceedings were described in past Annual Reports. *FY 2019 Annual Report* at 18-19; Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2020*, January 26, 2021, at 44 (*FY 2020 Annual Report*).
51. *See* Order No. 6043 at 1-2.
52. *Id.* at 2-3.
53. *Id.* at 10.
54. Docket No. RM2020-4, Advance Notice of Proposed Rulemaking to Consider Regulations to Carry Out the Statutory Requirements of 39 U.S.C. 601, February 7, 2020 (Order No. 5422).
55. *See* Private Express Statutes, 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.
56. *See* Order No. 5422 at 2.
57. 39 U.S.C. § 601(c).
58. Order No. 5422 at 4, 7-8.
59. Docket No. RM2020-4, Chairman’s Information Request No. 1, March 4, 2020; Docket No. RM2020-4, Chairman’s Information Request No. 2, April 1, 2020; *See* Docket No. RM2020-4, Order Holding Rulemaking in Abeyance, July 2, 2021, at 1-2 (Order No. 5929).
60. *See* Order No. 5929.
61. *Id.* at 2.
62. *Id.*
63. Docket No. PI2021-2, Notice and Order Providing an Opportunity to Comment on Regulations Pertaining to 39 U.S.C. § 601, July 2, 2021 (Order No. 5930).
64. Docket No. RM2020-4, Notice of Proposed Rulemaking for Regulations Pertaining to Section 601, November 24, 2021 (Order No. 6047).
65. Order No. 6047 at 17.
66. *Id.*
67. *Id.*
68. 39 C.F.R. § 3010.101(q).
69. 39 C.F.R. § 3010.101(f).
70. *Id.*
71. *Id.*
72. 39 U.S.C. § 3622(d)(1)(A), (d)(2)(A).
73. 39 U.S.C. § 3622(e)(2).

74. 39 U.S.C. §§ 3626, 3627, 3629.
75. Docket No. R2021-1, United States Postal Service Notice of Market-Dominant Price Change, October 9, 2020.
76. *Id.* at 5. The Commission recalculated the percentage increases proposed by the Postal Service. See Docket No. R2021-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 18, 2020, at 2 (Order No. 5757).
77. Order No. 5757 at 2, 115-16.
78. *Id.* at 2.
79. *Id.*
80. 39 C.F.R. § 3030.127(a).
81. See 39 U.S.C. § 3622(d)(1)(A).
82. 39 C.F.R. part 3030, subparts D and E. This additional rate adjustment authority is described above in the section “Rulemakings Amending Commission Regulations - Statutory Review of Market Dominant Rate System.”
83. 39 C.F.R. § 3030.127(b).
84. 39 C.F.R. § 3030.221. This requirement “does not apply to a non-compensatory product for which the Commission has determined that the Postal Service lacks independent authority to set rates (such as rates set by treaty obligation).” *Id.*
85. 39 C.F.R. § 3030.222(a).
86. 39 C.F.R. § 3030.282.
87. 39 C.F.R. § 3030.283-284; See Order No. 5937 at 5-6.
88. 39 C.F.R. § 3030.283. The proposed workshare discount that relates to a subclass of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value must also comply with 39 C.F.R. § 3030.285(c).
89. 39 C.F.R. § 3030.284. The relationship between workshare discounts and avoided costs is usually expressed as a percentage called a passthrough, which is generally calculated by dividing the discount by the cost avoided. Workshare discounts with passthroughs below 100 percent are considered below avoided cost workshare discounts. Order No. 5937 at 6 n.7.
90. 39 C.F.R. §§ 3030.284(d), 3030.286(a).
91. Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021 (Docket No. R2021-2 Notice).
92. See Order No. 5763. These rules are described in the “Rulemakings Amending Commission Regulations - Statutory Review of Market Dominant Rate System” section above.
93. Order No. 5937 at 2, 129-30.
94. *Id.* at 2. The Commission also found that the proposed rate adjustments did not implicate the pricing requirements appearing in 39 U.S.C. §§ 3627 and 3629. *Id.*
95. *Id.* at 130.
96. Docket No. RM2021-5, United States Postal Service Application for Waiver Under 39 CFR 3030.286, March 26, 2021 (Docket No. RM2021-5 Application). Grounds for waiver to set a workshare discount below avoided cost relate to the impediment of efficient postal operations and non-compensatory products. See 39 C.F.R. § 3030.286(c)(5), (7).
97. Docket No. RM2021-5 Application at 1.
98. *Id.* at 2.
99. *Id.*

100. *Id.*
101. See Docket No. RM2021-5, Order Denying Postal Service Application for Waiver Under 39 C.F.R. § 3030.286, April 21, 2021, at 5-6 (Order No. 5873).
102. Order No. 5873 at 10.
103. *Id.*; See 39 C.F.R. § 3035.286(c)(1).
104. Order No. 5873 at 11. Section 3030.286(c)(5) requires the Postal Service to describe the operational strategy at issue, provide any supporting quantitative or qualitative analysis, and explain how setting a compliant workshare discount would impede the operational strategy the Postal Service identifies. See *Id.* at 10.
105. *Id.* at 11.
106. Order No. 5937 at 79-80.
107. 39 C.F.R. § 3010.101(f).
108. 39 U.S.C. § 3632(b)(2); 39 C.F.R. § 3035.102-104. The Postal Service must also publish its decision to change rates or classes of general applicability in the *Federal Register* at least 30 days before the new rates or classes become effective. *Id.*
109. 39 U.S.C. § 3632(b)(3); 39 C.F.R. § 3035.105(a).
110. 39 C.F.R. §§ 3035.102-105. For proposed decreases in rates of general applicability and changes to rates or classes not of general applicability, the notice must also include: (1) sufficient revenue and cost data for the 12-month period following the effective date of the change demonstrating that each affective Competitive product will cover its attributable costs; and (2) a Postal Service certified statement attesting to the accuracy of the data submitted and explaining why, following the change, Competitive products in total will not be subsidized by Market Dominant products. 39 C.F.R. §§ 3035.103(c), 105(c).
111. 39 U.S.C. § 3633(a)(1).
112. 39 U.S.C. §§ 3633(a)(2), 3631(b).
113. 39 U.S.C. § 3633(a)(3).
114. Docket No. CP2021-15, United States Postal Service Notice of Changes in Rates of General Applicability for Competitive International Products, October 9, 2020; Docket No. CP2021-28, USPS Notice of Changes in Rates of General Applicability for Competitive Products, November 16, 2020.
115. Docket No. CP2021-15, Order Approving Price Adjustments for Competitive International Products, November 24, 2020, at 5 (Order No. 5760); Docket No. CP2021-28, Order Approving Price Adjustments for Domestic Competitive Products, December 9, 2020, at 5-6 (Order No. 5773).
116. Order No. 5760 at 6; Order No. 5773 at 6.
117. Docket No. CP2021-127, USPS Notice of Time-Limited Changes in Rates of General Applicability for Competitive Products, August 10, 2021 (Docket No. CP2021-127 Notice).
118. Docket No. CP2021-127 Notice at 1.
119. Docket No. CP2021-127, Order Approving Price Adjustments for Domestic Competitive Products, August 31, 2021, at 5-6 (Order No. 5973).
120. Docket No. CP2021-81, USPS Notice of Changes in Class of General Applicability for a Competitive Product, March 26, 2021 (Docket No. CP2021-81 Notice).
121. Docket No. CP2021-81 Notice at 1-2.
122. See *Id.*
123. Docket No. CP2021-81, Order Approving Changes in Class of General Applicability for Competitive Products, April 14, 2021, at 4 (Order No. 5867).
124. Available at www.prc.gov; hover over “References” and click on the “Negotiated Service Agreements Statistics” link.
125. Universal Postal Union, Decisions of the 2019 Geneva Extraordinary Congress, Second

Additional Protocol to the Universal Postal Convention, Article 28bis.1 (Berne 2019); available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/actsOfCurrentCycle/actsActsOfTheExtraordinaryCongressGenevaEn.pdf>.

126. Docket No. CP2021-94, Notice of the United States Postal Service of Rates Not of General Applicability for Inbound E-Format Letter Post, and Application for Non-Public Treatment, May 14, 2021, at 3-5, Attachment 2 (Docket No. CP2021-94 Notice).
127. Docket No. CP2021-94 at 4.
128. Docket No. CP2021-94, Order Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, May 28, 2021, at 4-5 (Order No. 5904).
129. Docket No. CP2021-94, Final Determination to Unseal Self-Declared Rates for Inbound Letter Post Small Packets and Bulky Letters, July 13, 2021 (Order No. 5935).
130. Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2017*, January 26, 2018, at 36.
131. Universal Postal Union, Regulations to the Convention Final Protocol, Article 32-201, Berne 2017, available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/nonPermanentActs/actNonPermanentRegulationsConventionFinalProtocolEn.pdf>.
132. *Id.* Article 32-202.
133. Docket No. CP2021-47, Notice of the USPS of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), and Application for Non-public Treatment, December 11, 2020, at 1.
134. Docket No. CP2021-47, Order Acknowledging Changes in Prices for Inbound Parcel Post (at UPU Rates), December 22, 2020 (Order No. 5787); *See* Docket No. CP2021-47, Notice of Errata to Order No. 5787, December 23, 2020 (Order No. 5789).
135. Docket No. CP2021-128, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound EMS 2, and Application for Non-Public Treatment, August 10, 2021, at 1.
136. Docket No. CP2021-128, Order Approving Changes in Prices Not of General Applicability for Inbound EMS 2, August 20, 2021, at 2 (Order No. 5966).
137. Order No. 5966 at 3.
138. 39 U.S.C. § 3634; 39 C.F.R. § 3060.40, et seq.
139. Docket No. T2021-1, Notice of the United States Postal Service of Submission of the Calculation of the FY 2020 Assumed Federal Income Tax on Competitive Products, January 14, 2021.
140. *See* Docket No. T2021-1, Order Approving the Calculation of the FY 2020 Assumed Federal Income Tax on Competitive Products, April 14, 2021, at 3, 6 (Order No. 5866).
141. Order No. 5866 at 2-3.
142. *Id.* at 4.
143. 39 U.S.C. § 3652(a)(1).
144. *Id.* § 3652(a)(2), (b), (c).
145. *Id.* § 3652(a).
146. These reports are on the Commission's website, available at <https://www.prc.gov/prc-reports>.
147. 39 U.S.C. § 3653(a), (b).
148. *See* FY 2020 ACD.
149. *Id.* at 3-4.
150. *Id.* at 2-4.
151. *Id.* at 20-66.

152. *See, e.g., Id.*
153. *Id.* at 5, 261.
154. *Id.* at 5.
155. *Id.* at 261.
156. *Id.*
157. *Id.*
158. *Id.* at 97.
159. *Id.* at 4.
160. *Id.* at 99-150.
161. *Id.* at 5.
162. *Id.* at 4.
163. *Id.* at 5.
164. *Id.*
165. *Id.* at 5.
166. *Id.* at 2.
167. *Id.*
168. *Id.* at 4.
169. *Id.* These products were one domestic NSA, GEPS 11, International Money Transfer Service—Inbound, International Money Transfer Service—Outbound, and International Ancillary Services. *Id.*
170. *Id.*
171. Docket No. ACR2020, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2020, Revised—November 4, 2021 (Revised FY 2020 Financial Analysis).
172. Coronavirus Aid, Relief, and Economic Security Act (CARES Act), March 27, 2020, Pub. L. 116-136.
173. Revised FY 2020 Financial Analysis at 3-5.
174. At the end of FY 2020, the Postal Service had \$1 billion in available borrowing authority remaining from the PAEA-mandated debt ceiling of \$15 billion. *Id.* at 39. This available borrowing authority plus the cash and cash equivalents of \$14.4 billion covers approximately 66 days of FY 2020 cash expenses. United States Postal Service, *2020 Annual Report on Form 10-K* at 45 (filed with the Commission on November 13, 2020).
175. *Id.* at 6-7.
176. 39 U.S.C. § 3653(d).
177. *Id.*
178. Docket No. ACR2020, *Analysis of the Postal Service’s FY 2020 Annual Performance Report and FY 2021 Performance Plan*, June 2, 2021 (FY 2020 Analysis).
179. FY 2020 Analysis at 14-33.
180. *Id.* at 7. The Postal Service partially met the Excellent Customer Experiences, Safe Workplace and Engaged Workforce, and Financial Health performance goals, but did not meet the High-Quality Service goal. *Id.*
181. *Id.* at 34-128.
182. 39 U.S.C. § 3661(b).
183. 39 C.F.R. § 3020.112.
184. Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion).
185. Docket No. N2021-1 Advisory Opinion at 1.
186. *Id.* at 65.

187. *Id.* at 66.
188. *Id.*
189. *Id.*
190. *Id.* at 67.
191. *Id.*
192. *Id.*
193. *Id.* at 68.
194. *Id.*
195. *Id.*
196. *Id.* at 161-80.
197. *Id.*
198. *Id.* at 5.
199. Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2 Advisory Opinion).
200. Docket No. N2021-2, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 17, 2021, at 1-5 (Docket No. N2021-2 Request).
201. *See* Docket No. N2021-2 Advisory Opinion at 52.
202. *Id.* at 52-53.
203. *Id.* at 3.
204. *Id.*
205. *Id.* at 3-4.
206. *Id.* at 4.
207. *Id.* at 4-5.
208. *Id.* at 5.
209. *Id.* at 6.
210. *Id.*
211. *Id.*
212. *Id.*
213. 39 U.S.C. § 3642(a). The Commission may also initiate a proceeding to change the product lists. *Id.*
214. 39 C.F.R. part 3040, subparts B, C, and D.
215. 39 U.S.C. § 3642(b)(1).
216. 39 U.S.C. § 3642(b)(2).
217. 39 U.S.C. § 3642(b)(3).
218. *See* 39 C.F.R. § 3040.132(c).
219. A BPM Parcels mailpiece may weigh up to 15 pounds and contain printed matter consisting of advertising, promotional, directory, or editorial material. Docket No. MC2021-78, United States Postal Service Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, March 26, 2021, at 3-4 (Docket No. MC2021-78 Request). BPM is available only to business customers and is transported by ground shipping and delivery. *Id.* at 4.
220. *See* Docket No. MC2021-78 Request.
221. *Id.* at 1.
222. *Id.* at 2-14.
223. *Id.* at 6.
224. *See Id.* at 6-7.
225. *Id.* at 10-12.

226. *Id.* at 16.
227. *Id.* at 14-16.
228. *Id.* at 17.
229. Docket Nos. MC2020-252 and CP2020-282, Request of the United States Postal Service to Add International Competitive Multi-Service Commercial Contracts 1 to the Competitive Products List and Application for Non-Public Treatment of Materials Filed Under Seal, September 18, 2020 (Docket Nos. MC2020-252 and CP2020-282 Request).
230. Docket Nos. MC2020-252 and CP2020-282 Request at 1.
231. *Id.* at 4-5, 13.
232. *Id.* at 8, 15.
233. Docket Nos. MC2020-252 and CP2020-282, Order Denying Request to Add Product to the Competitive Product List, November 13, 2020, at 2, 10 (Order No. 5753).
234. Order No. 5753 at 6.
235. *Id.* at 7.
236. *Id.* at 8-9.
237. *Id.* at 10.
238. 39 C.F.R. part 3040, subpart E. 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.” Docket No. RM2015-6, Notice of Proposed Rulemaking on Changes and Corrections to the Mail Classification Schedule, November 14, 2014, at 9, 14 (Order No. 2250).
239. Docket No. MC2021-91, Order Approving Classification Changes to Outbound Single-Piece First-Class Package International Service, June 10, 2021 (Order No. 5912).
240. 39 C.F.R. § 3040.211; *See* 39 U.S.C. § 3682.
241. 39 C.F.R. part 3040 subpart F.
242. Docket No. MC2021-25, Order Approving Minor Corrections to the Mail Classification Schedule, November 25, 2020 (Order No. 5761); Docket No. MC2021-104, Order Approving Update to the Maximum Size Limit for Presorted First-Class Mail Postcards, July 28, 2021 (Order No. 5946).
243. Order No. 4257 at 250.
244. Docket No. PI2015-1, Order Approving Use of Internal Measurement Systems, July 5, 2018 (Order No. 4697); *See* Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771).
245. 39 C.F.R. § 3055.5.
246. Docket No. PI2021-3, United States Postal Service Notice of Filing Changes to Service Performance Measurement Plan Document, August 31, 2021 (Docket No. PI2021-3 Notice).
247. Docket No. PI2021-3 Notice at 1.
248. *Id.* at 1-2; *See* Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020 (Order No. 5576).
249. Docket No. PI2021-3, Order Approving Modifications to Market Dominant Service Performance Measurement Systems and Closing Docket, September 28, 2021, at 1, 6, 9 (Order No. 5989). Docket No. N2021-1 is described in the “Nature of Service Cases” section above.
250. Order No. 5989 at 8.
251. Docket No. PI2020-1, Notice and Order Providing an Opportunity to Comment, October 1, 2019, at 1 (Order No. 5260).
252. *See* “Chapter IV - Value of the Postal Monopoly” below; *FY 2020 Annual Report* at 53-55.
253. Order No. 5260 at 2-3. The letter monopoly is codified in the Private Express Statutes. *See* 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.

- 254. 18 U.S.C. § 1725.
- 255. See Order No. 5260.
- 256. *Id.* at 1; See “Chapter IV - Value of the Postal Monopoly” below; *FY 2020 Annual Report* at 53-55.
- 257. Order No. 5260 at 1-2.
- 258. Docket No. PI2020-1, Notice of Filing Library Reference PRC-LR-PI2020-1-NP1 and Order Setting Comment Deadline, February 10, 2021 (Order No. 5832); See Docket No. PI2020-1, Notice of Errata, March 1, 2021.
- 259. Order No. 5832 at 1.
- 260. *Id.* at 7.
- 261. Docket No. PI2021-1, Notice and Order Providing an Opportunity to Comment with Respect to Universal Service Obligation Valuation Methodology, December 10, 2020 (Order No. 5777).
- 262. See Postal Regulatory Commission, *Report on Universal Postal Service and Postal Monopoly*, December 19, 2008 (USO Report).
- 263. 39 U.S.C. § 101(a); See USO Report at 18.
- 264. Order No. 5777 at 2; See “Chapter IV – Universal Service Obligation and Postal Monopoly” section below; 39 U.S.C. § 3651(b)(1).
- 265. Order No. 5777 at 3.
- 266. *Id.*
- 267. *Id.* at 1, 3, 8-9.
- 268. *Id.* at 3-8.
- 269. Docket No. PI2021-1, Motion of the United States Postal Service to Disclose Methodological Information and to Adjust Procedural Schedule, January 12, 2021, at 1-2. The Public Representative filed a response supporting the Postal Service’s motion. Docket No. PI2021-1, Public Representative Response to Motion to Disclose Methodological Information and Adjust Procedural Schedule, January 14, 2021.
- 270. Docket No. PI2021-1, Order Granting Motion to Disclose Methodological Information and to Adjust Procedural Schedule, January 21, 2021, at 2 (Order No. 5821).
- 271. Order No. 5930 at 1. The letter monopoly and 39 U.S.C. § 601 are described in the “Rulemakings Amending Commission Regulations” section above.
- 272. See Order No. 5422.
- 273. Order No. 5930 at 6. Section 601(a) provides for the private carriage of letters when, among other things, the letter is in an envelope that is properly addressed, the proper amount of postage is affixed to the envelope, and the postage is canceled in ink by the sender. 39 U.S.C. § 601(a). Section 601(b)(1) and (b)(2) further provide that a letter must meet price and weight requirements in order to be carried out of the mail. 39 U.S.C. § 601(b)(1), (b)(2).
- 274. Order No. 5930 at 6.
- 275. *Id.*
- 276. *Id.*
- 277. *Id.* at 6-7.
- 278. *Id.* at 7; See 39 U.S.C. § 601(b)(3).
- 279. Order No. 5930 at 7.
- 280. Docket No. PI2021-2, Order Closing Docket, November 24, 2021 (Order No. 6046).
- 281. Order No. 6046 at 2.
- 282. *Id.*
- 283. 39 C.F.R. § 3050.1(c).

284. 39 C.F.R. §§ 3050.1(a), 3050.10.
285. “Costs attributable” mean the direct and indirect postal costs that can be clearly associated with a particular mail product through reliably identified causal relationships. 39 U.S.C. § 3631(b). Cost attribution involves dividing and distributing the Postal Service’s costs among the products associated with those costs.
286. United States Postal Service, Office of Inspector General, Report No. RARC-WP-12-008, *A Primer on Postal Costing Issues*, March 20, 2012, at i, 1. For example, the Commission reviews proposed rate adjustments for Competitive products to ensure, among other things, that revenue for each Competitive product covers its attributable costs. See “Rate Adjustments – Competitive Products” section above.
287. 39 U.S.C. § 3652(e)(2); 39 C.F.R. § 3050.11(a). The Commission, acting on its own behalf, may also initiate a proceeding to change an accepted analytical principle. 39 C.F.R. § 3050.11(a).
288. *Id.*
289. “Postmaster,” *Publication 32 – Glossary of Postal Terms*, available at https://about.usps.com/publications/pub32/pub32_terms.htm.
290. Docket No. RM2020-2, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 29, 2019, at 1 (Docket No RM2020-2 Petition).
291. Docket No RM2020-2 Petition, Proposal Ten at 1.
292. See *Id.* at 2.
293. Variabilities are percentages that measure the amount by which costs vary with volume. United States Postal Service, Office of Inspector General, Report No. RARC-WP-19-002, *What’s Driving Postal Transportation Costs?*, March 18, 2019, at 22.
294. Docket No. RM2020-2 Petition, Proposal Ten at 1. The Postal Service submitted the new study in a filing accompanying Proposal Ten. See Docket No. RM2020-2, Michael D. Bradley, *Investigating the Variability of Postmaster Costs*, November 29, 2019.
295. Docket No. RM2020-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Ten), July 8, 2021, at 2, 49 (Order No. 5932).
296. Order No. 5932 at 46.
297. *Id.* at 45-46. First, the 10 percent WSC growth rate is excessive because it is inconsistent with general econometric practice and the Postal Service’s current method for calculating variabilities. *Id.* at 45. Also, the Postal Service lacks sufficient historical data to calculate a realistic WSC growth rate. *Id.* Second, the Postal Service failed to demonstrate the robustness of the variability used with respect to the assumed change in WSCs. *Id.* at 45-46. Third, the Postal Service did not use clear criteria in its sensitivity analysis that can be relied upon to choose the scaling factor used to implement changes in WSCs. *Id.* at 46. Finally, the unidirectional nature of the proposed variability is problematic because it does not consider the possibility that a Post Office may be downgraded from its current pay grade to the immediately lower pay grade. *Id.*
298. *Id.* at 47-49.
299. Docket No. RM2020-9, Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, May 29, 2020 (Docket No. RM2020-9 Petition). UPS Proposal One is filed with the Petition.
300. Docket No. RM2020-9 Petition, UPS Proposal One at 3.
301. Incremental costs are “costs that result from providing a specific product, and can be traced to that specific product.” Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.’s Proposed

Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, Appendix A at 8 (Order No. 3506); *See* Docket No. RM2016-2, Notice of Errata, October 19, 2016. The Commission implemented the incremental cost test to ensure that Market Dominant products do not cross-subsidize Competitive products. Order No. 3506 at 10.

- 302. Docket No. RM2020-9 Petition, UPS Proposal One at 39-41.
- 303. Docket No. RM2020-9, Notice and Order Establishing Comment Deadline, October 27, 2020 (Order No. 5738).
- 304. Docket No. RM2020-9, Order Rejecting United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposal One), November 29, 2021, at 2 (Order No. 6048).
- 305. Order No. 6048 at 2, 12-13.
- 306. *Id.* at 13-16.
- 307. *Id.* at 16-21.
- 308. *Id.* at 2; *See* Docket No. RM2022-1, Notice and Order of Proposed Rulemaking on Periodic Reporting, October 8, 2021 (Order No. 6004).
- 309. Order No. 6048 at 2.
- 310. Docket No. RM2020-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020, at 1 (Docket No. RM2020-13 Petition). The Petition was accompanied by a study supporting Proposal Six. *See* Docket No. RM2020-13, A. Thomas Bozzo & Tim Huegerich, Christensen Associates, *Analysis of Labor Variability for Automated Letter and Flat Sorting*, September 15, 2020 (Variability Report).
- 311. These cost pools are the Delivery Barcode Sorter (DBCS), Automated Flats Sorting Machine (AFSM) 100, and Flats Sequencing System (FSS). Docket No. RM2020-13 Petition, Proposal Six at 1. The DBCS processes letter- and card-shaped mail, while the AFSM 100 and FSS primarily process flat-shaped mail. *Id.* at 1 n.1.
- 312. *Id.* at 1-2.
- 313. *Id.* at 1.
- 314. *See* Variability Report at 4.
- 315. Docket No. RM2020-13 Petition, Proposal Six at 2.
- 316. *Id.* at 3.
- 317. *Id.* at 4.
- 318. *Id.* at 1.
- 319. *Id.* at 5. MODS is a web-enabled application that allows the Postal Service to systematically gather, store, and report data on workload, workhours, and machine utilization by operation number and facility type. United States Postal Service, Office of Inspector General, Report No. CP-AR-19-001, *Management Operating Data System Errors and Adjustments*, April 3, 2019, at 4.
- 320. Docket No. RM2020-13, Petition, Proposal Six at 6.
- 321. *Id.* at 1-2.
- 322. Docket No. RM2021-1, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), November 9, 2020, at 1 (Docket No. RM2021-1 Petition).
- 323. Docket No. RM2021-1 Petition, Proposal Seven at 1.
- 324. *Id.*
- 325. *Id.*
- 326. *Id.*; *See* Docket No. RM2016-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), June 22, 2017, at 40 (Order No. 3973).

327. Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021, at 2, 15 (Order No. 5999).
328. Order No. 5999 at 2.
329. *Id.*
330. Docket No. RM2021-7, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), July 22, 2021 (Docket No. RM2021-7 Petition).
331. Docket No. RM2021-7 Petition, Proposal Four at 2. Proposal Four would “replace manual sampling with scan data from Product Tracking and Reporting (PTR) combined with the clock rings from the Time and Attendance Collection System (TACS).” *Id.* The PTR system receives and stores all tracking scan data from acceptance to delivery. United States Postal Service, Office of Inspector General, Report No. 21-036-R21, *City Carrier Cost System*, July 14, 2021, at 9 n.21. The Postal Service uses TACS to track the number of work hours employees spend working in various Postal Service operations, such as mail collection, transportation, and delivery. United States Postal Service, Office of Inspector General, Report No. 20-180-R21, *Timecard Administration*, December 9, 2020, at 4. Employees must clock in and out during their scheduled work time by swiping their identification card. *Id.* Each swipe updates the employee’s timecard record in TACS and is commonly referred to as a “clock ring.” *Id.*
332. United States Postal Service, Office of Inspector General, Report No. CP-AR-18-002, *Delivery Charge Codes*, January 19, 2018, at 4.
333. Docket No. RM2021-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 30, 2021, at 12 (Order No. 5991). The Commission’s approval was conditioned on the Postal Service filing sufficient documentation that it had inadvertently excluded from Proposal Four. Order No. 5991 at 16.
334. *Id.* at 12-13. “Distribution keys are percentages used to assign volume variable costs to products.” United States Postal Service, Office of Inspector General, Report No. 20-313-R21, *Contract Delivery Service Cost Attribution*, June 21, 2021, at 9 n.31. “A cost pool represents the cumulative costs incurred from related activities performed within [the Postal Service].” *Id.* at 10 n.37.
335. Order No. 5991 at 13.
336. *Id.*
337. *Id.* at 15.
338. *Id.*
339. *Id.* at 15-16.
340. Docket No. RM2021-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), November 4, 2021, at 1. (Order No. 6032).
341. Docket No. RM2021-3, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), March 11, 2021.
342. Docket No. RM2021-4, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), March 24, 2021.
343. Docket No. RM2021-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), November 5, 2021 (Order No. 6033).
344. Docket No. RM2021-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), December 1, 2021 (Order No. 6050); See Order No. 5937 at 82. Order No. 5937 was discussed in the “Rate Adjustments – Market Dominant Products” section above.
345. See Order No. 6004.

346. *Id.* at 1; *See* 39 U.S.C. § 3652(e)(2).
347. Order No. 6004 at 9.
348. *See* Order No. 6048 at 2
349. Order No. 6004 at 9.
350. *Id.* at 9-10.
351. *Id.* at 10.
352. 39 U.S.C. § 3662(a).
353. 39 U.S.C. § 3662(b); 39 C.F.R. § 3022.30(a).
354. *See* United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (10-Year Strategic Plan).
355. Docket No. C2022-1, Complaint Regarding United States Postal Service Violation of 39 U.S.C. § 3661(b), October 7, 2021 (Docket No. C2022-1 Complaint). On October 22, 2021, the States filed a motion to amend the complaint to add the state of Vermont as a complainant, which the Commission granted. Docket No. C2022-1, Motion of the States to Amend the Complaint to Add State of Vermont as a Complainant, October 22, 2021; Docket No. C2022-1, Order Granting Motion to Extend Response Deadline, October 29, 2021, at 2 n.2 (Order No. 6025).
356. 39 U.S.C. § 3661(b). The Commission’s rules require the Postal Service to file its request “not less than 90 days before the proposed effective date of the change in the nature of postal services involved.” 39 C.F.R. § 3020.112.
357. Docket No. C2022-1 Complaint at 26-32.
358. *Id.* at 33-36.
359. *Id.* at 36 ¶ 124.
360. Docket No. C2022-1, United States Postal Service’s Motion to Dismiss, October 27, 2021, at 1 (Docket No. C2022-1 Motion to Dismiss).
361. Docket No. C2022-1 Motion to Dismiss at 1.
362. *Id.* at 1-2.
363. *Id.* at 5-18.
364. Docket No. C2022-1, Complainants’ Opposition to the United States Postal Service’s Motion to Dismiss, November 10, 2021 (Docket No. C2022-1 Opposition).
365. Docket No. C2022-1 Opposition at 6.
366. *Id.* at 1, 21-28.
367. Docket No. C2022-1, Order Granting Motion to Dismiss Complaint, December 17, 2021 (Order No. 6067).
368. Order No. 6067 at 16.
369. *Id.* at 17, 21.
370. *Id.* at 24.
371. *Id.* at 23.
372. *Id.* at 24-29.
373. *Id.* at 30.
374. Docket No. C2021-2, Complaint of Christopher S. Searcy vs Danville, KY Post Office, August 5, 2021.
375. 39 C.F.R. § 3022.13.
376. Docket No. C2021-2, Order Referring Complaint, August 9, 2021 (Order No. 5954).
377. Order No. 5954 at 2.

378. Docket No. C2021-2, Report of the United States Postal Service in Response to Order No. 5954, October 5, 2021, at 2; *See* Docket No. C2021-2, Motion of the United States Postal Service for Late Acceptance of its Rule 3023.11(a) Report, October 5, 2021.
379. Docket No. C2021-2, Order Dismissing Complaint, October 27, 2021 (Order No. 6021).
380. Order No. 6021 at 2.
381. *Id.*
382. Docket No. C2021-1, Complaint Regarding the United States Postal Service's Erroneous Classification of Complainant as a Transient Development, April 23, 2021, at 2, ¶ 6-7 (Docket No. C2021-1 Complaint). Section 403(c) states “the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.” 39 U.S.C. § 403(c).
383. Docket No. C2021-1 Complaint at 2, ¶¶ 2-10.
384. *Id.* ¶¶ 7-11.
385. *Id.* ¶¶ 2-11.
386. Docket No. C2021-1, United States Postal Service’s Motion to Dismiss, May 12, 2021.
387. Docket No. C2021-1, Complainant’s Notice of Voluntary Dismissal of Complaint with Prejudice, June 17, 2021.
388. Docket No. C2021-1, Order Closing Docket, June 17, 2021, at 2 (Order No. 5919).
389. 39 U.S.C. § 3641(a)(2).
390. *Id.* § 3641(c)(1); 39 C.F.R. §§ 3045.2, 3045.3.
391. Docket No. MT2020-1, Order Authorizing Commercial PO Box Redirect Service, June 3, 2020 (Order No. 5528).
392. Docket No. MT2020-2, Order Authorizing Extended Mail Forwarding Market Test, July 20, 2020, at 1 (Order No. 5591).
393. Docket No. MT2019-1, Order Authorizing Plus One Market Test, September 20, 2019 (Order No. 5239).
394. 39 U.S.C. § 3641(d).
395. Docket No. MT2019-1, Order Authorizing Extension of Plus One Market Test, June 4, 2021 (Order No. 5909).
396. Docket No. MT2019-1, United States Postal Service Notice of Request to Convert Plus One to Permanent Offering, November 10, 2021.
397. 39 U.S.C. § 404(d)(5).
398. Docket No. A2021-1, In the Matter of Spanish Fort, Alabama 36527 / Appeal of Postal Service Determination to Close Spanish Fort Post Office, December 28, 2020; Docket No. A2021-2, In the Matter of Neskowin, Oregon 97149 / Appeal of David Benneth to Close Neskowin Post Office, May 26, 2021.
399. Docket No. A2021-1, United States Postal Service Motion to Dismiss Proceedings, January 7, 2021; Docket No. A2021-2, United States Postal Service Motion to Dismiss Proceedings, June 7, 2021.
400. Docket No. A2021-1, Order Granting Motion to Dismiss, February 10, 2021 (Order No. 5831); Docket No. A2021-2, Order Granting Motion to Dismiss, June 23, 2021 (Order No. 5925).
401. Order No. 5831 at 5-6; Order No. 5925 at 3-4.
402. Order No. 5831 at 14; Order No. 5925 at 8.
403. 39 U.S.C. § 3663.
404. *Nat’l Postal Policy Council v. Postal Reg. Comm’n*, No. 17-1276, 2021 WL 5263954 (D.C. Cir. Nov. 12, 2021); Petition for Review, *Nat’l Postal Policy Council v. Postal Reg. Comm’n*, No. 17-1276 (D.C. Cir.

filed Dec. 29, 2017); Petition for Review, *Nat'l Postal Policy Council and Major Mailers Ass'n v. Postal Reg. Comm'n*, No. 20-1505 (D.C. Cir. filed Dec. 18, 2020); Petition for Review, *Alliance of Nonprofit Mailers et al. v. Postal Reg. Comm'n*, No. 20-1510 (D.C. Cir. filed Dec. 18, 2020); Petition for Review, *U.S. Postal Service v. Postal Reg. Comm'n*, No. 20-1521 (D.C. Cir. filed Dec. 29, 2020).

- 405. *Nat'l Postal Policy Council v. Postal Reg. Comm'n*, No. 17-1276.
- 406. *Id.* at 1.
- 407. *Id.* at 5.
- 408. *Id.* at 6-7.
- 409. *Id.* at 8.
- 410. *Id.* at 8-9.
- 411. *Id.* at 10-11.
- 412. *Id.* at 11.
- 413. *Id.* at 10.
- 414. *Id.* at 11.
- 415. See Order No. 5831.
- 416. *City of Spanish Fort, Alabama v. Postal Reg. Comm'n*, No. 21-1089 (D.C. Cir. filed June 17, 2021).
- 417. 39 U.S.C. § 407(b)(1).
- 418. 39 U.S.C. § 407(c)(1).
- 419. 39 U.S.C. § 407(c)(2).
- 420. 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.
- 421. Docket IM2020-1, Notice and Order Establishing Section 407 Proceeding, March 9, 2020, at 2 (Order No. 5450).
- 422. Docket IM2020-1, Notice of Posting of Proposals, March 26, 2020; Docket IM2020-1, Notice of Posting of Document, March 30, 2020; Docket IM2020-1, Notice of Posting of Proposal, April 17, 2020.
- 423. Docket IM2020-1, Notice of Filing Correspondence, April 21, 2020.
- 424. Docket IM2020-1, Order Establishing Comment Deadline, March 31, 2021 (Order No. 5858).
- 425. Docket IM2021-1, Notice of Posting of Views, July 9, 2021.
- 426. Postal Regulatory Commission, *(draft)* Mail Classification Schedule, effective on October 3, 2021, available at <https://www.prc.gov/mail-classification-schedule>, Section 1130. The Inbound Letter Post product refers to international mail that is not classified as Parcel Post, Express Mail Service, or Global Express Guaranteed. It consists of inbound international pieces (originating outside of the United States and destined for delivery inside of the United States) that contain only documents, and encompass letters (to include aerogrammes and postcards) and large letters.
- 427. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, at 18 (USO Report).
- 428. USO Report at 10 n.1; See “Chapter IV - Value of the Postal Monopoly” section below.
- 429. In Docket No. PI2020-1, 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. This proceeding is described below in the “Value of the Postal Monopoly” section and in Chapter III in the “Public Inquiries – Value of Postal and Mailbox Monopolies” section above.

430. 39 U.S.C. § 3651(b)(1).
431. At the time the *FY 2021 Annual Report* was prepared, the most currently available complete data were from FY 2020.
432. See 39 U.S.C. § 3651(b)(2).
433. See Order No. 5777. This docket, which is currently pending before the Commission, is described in Chapter III in the “Public Inquiries – Universal Service Obligation Valuation Methodology” section above.
434. 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).
435. 39 U.S.C. § 403(b)(3).
436. Docket No. RM2015-19, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Ten), November 24, 2015, at 1 n.2 (Order No. 2837).
437. 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 26).
438. The Rural Mail Count classifies all remunerable activities of rural carriers as either Post Office or street activities. However, some Post Office activities can occur on the street. For example, parcel acceptance on the street is considered a Post Office activity because it can substitute for a customer sending a parcel at a Post Office window.
439. See Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2016*, January 12, 2017, at 42.
440. Piggyback costs augment labor cost estimates by adding the costs associated with supervisors and administration, service-wide benefits, along with facility-related and equipment-related costs. See Docket No. PI2021-1, Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 1, September 24, 2021, question 3.b. (Docket No. PI2021-1, Response to CHIR No. 1).
441. The Postal Service states that “[t]he ratio of retail transactions per retail revenue dollar declined 68 percent from 0.552 to 0.176 between FY 2007 and FY 2020.” See Docket No. PI2021-1, Response to CHIR No. 1, question 2.b.iii.
442. USO Report at 139.
443. United States Postal Service, 2019 Annual Report on Form 10-K, November 14, 2019, at 17; Docket No. ACR2019, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2019, May 7, 2020, at 80.
444. The Commission found it equitable to offer one PO Box at no charge to any customer the Postal Service determined ineligible for carrier delivery. Docket No. MC96-3, Opinion and Recommended Decision, April 2, 1997, at 62.
445. See USO Report at 196.
446. Docket No. RM2011-9, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal One), April 6, 2011, at 1.
447. Docket No. RM2011-9, Order Concerning Analytical Principles Used in Periodic Reporting (Proposal One), June 9, 2011, at 4 (Order No. 744).
448. See Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 17, 2020 (Order No. 5637), Appendix B, at 4; Docket No. RM2020-1, Responses of the United States Postal Service to Questions 1-16 of Chairman’s Information Request No. 3, June 10,

2020, questions 7.c.-7.d., 9.b.; Docket No. ACR2020, Library Reference USPS-FY20-8, December 29, 2020, PDF file “USPS-FY20-8.Preface.pdf,” at 1.

449. 39 U.S.C. § 3651(b)(1)(B). The Postal Service provides free postage for blind and disabled persons and for overseas voting. *Id.* §§ 3403-3406. The Postal Service receives appropriated funds reimbursing it for providing free postage. *Id.* § 2401(c). For this reason, the cost of providing free postage is not included in the USO Cost.
450. FY 2018 ACD at 39.
451. In this Annual Report, attributable cost means incremental cost. *See* Order No. 3506 at 125. The attributable cost for years before FY 2016 reflects the accepted methodology for those years and has not been recalculated. 39 U.S.C. § 3622(c)(2) defines attributable cost as the “direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]” In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs, developed as part of the estimation of incremental costs. Before that order, attributable cost only included the sum of volume-variable costs, which rise as volume increases and fall as volume decreases, and product-specific fixed costs, which are costs caused by a specific product but do not vary with volume. *See* Docket No. ACR2016, Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2016, March 31, 2017, at 37.
452. Periodicals is a preferred class of mail and receives several statutory discounts such as a 5 percent discount for nonprofit and classroom publications. 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 Regulatory 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 2020, the losses from Media Mail/Library Mail and BPM Parcels exceeded the contribution of the other profitable products in Package Services, making the class unprofitable as a whole with a net contribution of negative \$67.1 million. FY 2020 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.
453. FY 2020 ACD at 21-22. 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 the county of publication. Outside County consists of publications with a wide variety of circulation sizes, distribution patterns, and frequency. Revised FY 2020 Financial Analysis at 67. Both In-County and Outside County Periodicals average unit attributable costs increased and were particularly large in FY 2020. *Id.* at 69.
454. *See* Order No. 5763. The final rules are described in Chapter III in the “Rulemakings Amending Commission Regulations – Statutory Review of Market Dominant Rate System” section above.
455. Order No. 5763 at 159-60, 190-91. 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.
456. FY 2020 ACD at 2.
457. 39 U.S.C. § 3651(b)(1)(C).
458. The Postal Service provided updated Rural Mail Count data for FYs 2020 and 2019. *See* Docket No. PI2020-1, Response to CHIR No. 6, question 1; Docket No. PI2020-1, Library Reference USPS-

- PI2020-1/NP5, folder "ChIR6.Q1;" Docket No. PI2020-1, Library Reference USPS-PI2020-1/NP3, folder "Q1." Uniform First-Class Mail Rates costs for FY 2020 and FY 2019 methodologies use elasticities based on data that include the respective fiscal year and do not use the forecasting model volumes.
459. See, e.g., Consolidated Appropriations Act, 2021, Pub. L. 116-260, 134 Stat. 1182, 1423 (2020) ("6-day delivery and rural delivery of mail shall continue at not less than the 1983 level[.]").
460. 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 Docket No. N2010-1 Advisory Opinion; Postal Regulatory Commission, *Annual Report to the President and Congress Fiscal Year 2011*, December 21, 2011, at 41.
461. 39 U.S.C. § 404(c).
462. 39 U.S.C. § 3683.
463. The increase in the unit contribution of Media Mail/Library Mail in FY 2020 is due primarily to the decrease (9.1 percent) in the unit attributable cost for Media Mail/Library Mail in FY 2020. See Revised FY 2020 Financial Analysis at 71-72; Appendix A. The FY 2020 decrease in the unit contribution of BPM was due to an increase in the unit attributable cost which was not fully offset by the slight increase in the unit revenue. *Id.*
464. See *FY 2019 Annual Report* at 49.
465. See United States Postal Inspection Service, available at <https://www.uspis.gov/about/what-we-do/>.
466. See United States Postal Inspection Service, available at <https://www.uspis.gov/leadership>.
467. See United States Postal Inspection Service, available at <https://www.uspis.gov/about/what-we-do/>.
468. See Docket No. ACR2020, Library Reference USPS-FY20-32, December 29, 2020, PDF file "USPS-FY20-32 Preface.pdf," at 3.
469. 18 U.S.C. § 1725.
470. The letter monopoly is codified in the Private Express Statutes. See 18 U.S.C. §§ 1693-1699 ; 39 U.S.C. §§ 601-606.
471. Contestable mail is certain mail that is dropshipped to the processing facility or delivery unit closest to its destination.
472. See Order No. 5260. This proceeding is described in Chapter III in the "Public Inquiries – Value of Postal and Mailbox Monopolies" section above.
473. 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; Docket No. PI2020-1, Comments of the Public Representative, March 26, 2021; Docket No. PI2020-1, Second Comments of United Parcel Service, Inc., with Respect to Postal Monopoly Valuation Methodology, March 26, 2021; Docket No. PI2020-1, Second Comments of the United States Postal Service, March 26, 2021.
474. See USO Report at 143-52.
475. 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.

476. 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 was offered.
477. 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.
478. 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.
479. See USO Report at 144, Table 5 notes 2, 5; 143-46.
480. See notes to Table IV-7.
481. The FY 2020 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.
482. See USO Report at 144. The monopoly estimates in the USO Report were developed using the FY 2007 CCCS, FY 2007 RCCS, and the FY 2006 Rural Mail Count. USO Report, folder "Appendices," folder "USO Appendices," PDF file "Appendix F Section 4.pdf," at 9 n.9.
483. USO Report, folder "Appendices," folder "USO Appendices," PDF file "Appendix F Section 4.pdf," at 10.
484. See USO Report at 144.
485. Compare USO Report Table 5 at 144, with Table IV-7.



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