Mailers Hub News

December Summary *From the December 5 and 19 issues*

PRC Approves Market Dominant Price Increase, 2023 Promotions

In an order issued November 28, the Postal Regulatory Commission approved the prices and promotions for market dominant mail that were proposed by the Postal Service on October 7. The commission's decision came at the conclusion of the 21-day deliberation period following the close of the 30-day comment period on November 7.

Though approval of the USPS proposal was straightforward, the 108-page document nonetheless detailed the elements of the initial filing, the points raised in comments received by the commission, and the PRC's analysis of the statutory and regulatory provisions that had to be considered both in responding to comments and in reaching its final decision.

As the commission noted, the pricing authority available to the Postal Service was nearly entirely based on changes in the CPI over the period since the previous price change last July. The additional pricing authorities based on "density," "retirement," and "non-compensatory" that were approved by the PRC in November 2020 were not available, but will be for the expected July 2023 increase.

The PRC also approved the proposed 2023 promotions and incentives as filed. Those had been discussed at the late October meeting of the Mailers Technical Advisory Committee (while still awaiting approval). As previously described, the Postal Service will offer six promotions applicable to First-Class Mail and USPS Marketing Mail during calendar 2023. The Tactile, Sensory, and Interactive Mailpiece Engagement; Emerging and Advanced Technology; and Informed Delivery promotions will be available to both First-Class Mail and USPS Marketing Mail. The Personalized Color Transpromo; Reply Mail Intelligent Mail Barcode Accounting; and Retargeting Mail promotions will be open only to First-Class Mail.

- **Tactile, Sensory, and Interactive Mailpiece Engagement.** The promotion period will be February 1 through July 31, 2023, and will offer an upfront 5% postage discount on First-Class Mail letters, cards, and flats, and USPS Marketing Mail letters and flats that meet the promotion requirements. The Postal Service stated that the promotion would encourage mailers to enhance customer engagement with mailpieces by "using advanced print innovations in paper and stock, substrates, inks, interactive elements, and finishing techniques."
- **Emerging and Advanced Technology.** The promotion will be offered from May 1 through November 30, 2023, and provide an upfront 3% or 4% postage discount on eligible First-Class Mail letters, cards, and flats, and USPS Marketing Mail letters and flats that meet the promotion requirements. The promotion "encourages mailers to incorporate mobile and other technologies into their mail pieces." To qualify for the 3% discount, "eligible technologies include Mobile Shopping, Enhanced Augmented Reality (AR), and Basic Integration with Voice Assistant." Technologies eligible for the 4% discount "include Video in Print, NFC, Virtual Reality (VR)/Mixed Reality (MR), and Advanced Integration with Voice Assistant."
- **Personalized Color Transpromo.** Open from February 1 through July 31, 2023, the promotion offers an upfront postage discount on First-Class Mail presort and automation letters – bills and statements only – that meet the promotion requirements. The promotion encourages mailers "to incorporate color marketing messaging to foster a better connection and response from their customers" and "to invest in color print technology."

  A 3% postage discount would be available "to mailers who use dynamic and variable color print for personalized, transpromotional marketing messages on their bills and statements" that don't include Courtesy Reply Mail or Business Reply Mail.

  A 4% postage discount would be available if Courtesy Reply Mail or Business Reply Mail is included. For mailers that participated in this promotion in a prior year, the mailpiece must incorporate both dynamically printed color and personalized messaging to qualify for the CY 2023 promotion unless it meets specific exceptions. Mailers that did not participate in this promotion in a prior year need only satisfy the dynamic color printing requirement to qualify for the CY 2023 promotion.
- **Reply Mail IMbA.** The promotion runs from July 1 through December 31, 2023, and offers a 3% or 6% discount on First-Class Mail presort and automation letters that meet the promotion requirements. To receive a 3% discount, mailpieces must use static IMbA on qualifying postage; to receive a 6% discount, mailpieces must use serialized IMbA. Mailers must enroll to participate.
- **Retargeting Mail.** Available from September 1 through November 30, 2023, the promotion offers a 5% postage discount on First-Class Mail automation postcards that meet the Retargeting Promotion requirements. Qualifying postcards are those "mailed in connection with website or app behavior during the established program period"; mailers must be preapproved prior to participation.
- **Informed Delivery.** Offered from August 1 through December 31, 2023, the promotion provides an upfront 4% discount off postage for First-Class Mail automation letters, cards, and flats and USPS Marketing Mail automation letters and flats "that incorporate best practices and techniques in their Informed Delivery campaigns." In addition, the Postal Service plans to add a 0.5% incentive for the mail preparer. The Postal Service intends for this promotion to continue increasing the adoption rate of the Postal Service's Informed Delivery platform.

As previously announced, the approved prices will take effect on January 22; the promotions will be available according to the schedules specified by the Postal Service.

ENCLOSURE – FY23 MARKET DOMINANT PERFORMA

Product
First-Class Mail®
Single-Piece First-Class Mail® Letters and Cards
Two-Day
Three-to-Five Day
Outbound Single-Piece First-Class Mail® International and Inbound Letter Post
First Class™ Flats
Overnight
Two-Day
Three-to-Five Day
Presort First Class™ Letters/Postcards
Overnight
Two-Day
Three-to-Five Day
Periodicals
Within County
Outside County
Package Services
Media Mail®/Library Mail
Bound Printed Matter Parcels
Bound Printed Matter Flats
Marketing Mail®
USPS Marketing Mail® Carrier Route
USPS Marketing Mail® High Density and Saturation Letters
USPS Marketing Mail® High Density and Saturation Flats/Parcels
USPS Marketing Mail® Letters
USPS Marketing Mail® Flats
USPS Marketing Mail® Mixed Letters
USPS Marketing Mail® Mixed Flats/Parcels
USPS Marketing Mail® Every Door Direct Mail – Retail™

USPS Announces FY 2023 Service Targets

In a November 29 letter to the Postal Regulatory Commission, a Postal Service attorney provided official notice of the agency's "fiscal year 2023 performance targets for each market dominant product." The attachment to that document – containing the specifics – is shown at right.

According to USPS Publication 32, *Glossary of Postal Terms*, "service standards" are defined as:

> "Stated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by USPS to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination). ..."

In turn, "service performance targets" are the Postal Service's goals toward meeting service standards.

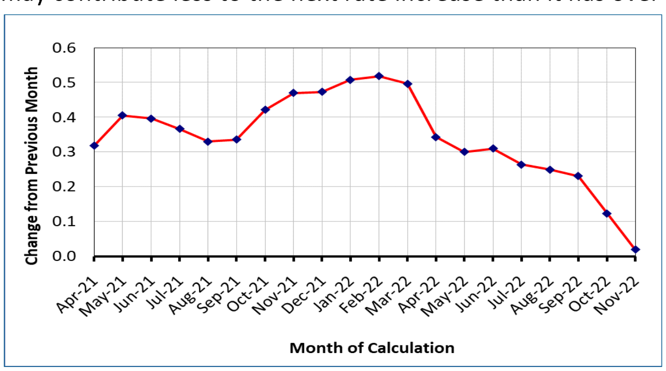
Changes to *service standards* require an advisory opinion from the Postal Regulatory Commission, but changes to *performance targets* only need approval by the Postal Service's executive leadership team and the Board of Governors.

In his March 2021 10-Year Plan, PMG Louis DeJoy called the service standards then in effect "unattainable" so, in May 2021, he persuaded the governors to cut all FY 2021 *targets* then, after obtaining (and ignoring) an advisory opinion from the PRC, he lowered the *service standards* for First-Class Mail effective October 2021.

So, if the *service standard* for First-class Mail is 95%, a 95% *target* (achieving the *standard* 95% of the time) means actual performance is only 90.25%. Regardless, it's likely the Postal Service's press releases will continue to claim "strong performance" no matter what its real performance may be.

CPI Pace May Favor Ratepayers

The rate of growth of the CPI-based cap tied to postal rate changes has eased in the past few months, suggesting it may contribute less to the next rate increase than it has over the past two years.



Following the mid-December release of the November CPI figures, the *annualized* cap was 8.058%. However, using the formula applicable to filings made less than a year apart (which is what would be used next year), the cap so far (after three months) is only 1.857%. Moreover, the month-to-month change in the annualized CPI cap has been decreasing since last February when it jumped 0.518% from January; by contrast, the October to November change was only 0.019%.

If the pattern continues as expected, the next price filing would be made in April 2023 (using the cap calculated based on the February CPI) and implemented the following July. Projecting forward to next February, the current rate of change in the calculated CPI cap would set it at less than 2.1% at that time. Of course, that figure will change as the December 2022 and January and February 2023 CPI data are released the following months.

The bad news is that the additional rate authorities given the Postal Service under a November 2020 decision by the Postal Regulatory Commission will be available for the next price change. The "density" and "prefunding" adders will be calculated this month; the "non-compensatory" adder is a fixed 2% applied only to categories falling short of cost coverage.

PRC Report Defends Ratesetting Process

In a report released December 9, the Postal Regulatory Commission concluded that the ratesetting process has operated correctly when responding to Postal Service price change requests for market dominant mail. The document, *Report on Rate Increases for Market Dominant Products*, was produced in response to a directive from the House Committee on Appropriations:

> "As part of the Consolidated Appropriations Act, 2022 making appropriations to the Commission for its FY 2022 budget, the House Committee on Appropriations (the Committee) stated that it is 'concerned with the size and timing of the [Postal Service's August 2021] rate increase [for Market Dominant products] and that the [Postal Accountability and Enhancement Act of 2006 (PAEA)] process did not account for the impact of the pandemic, including factors such as higher package revenues and emergency funding provided to the [Postal Service].' The Joint Explanatory Statement accompanying the Appropriations Act directs the Commission to consult with stakeholders for its report on Market Dominant products."

The opening 51 pages of the report recited the history of the current ratesetting process, especially the modifications to it implemented in November 2020, and the price increases imposed by the Postal Service since then.

The PRC explained that its decennial review of the ratemaking process prescribed by the 2006 postal reform law found that the process was not enabling achievement of the statutory objective of financial stability for the USPS. Consequently, as it saw its duty under the statutory mandate, the commission established three new forms of rate authority (density, linked to mail volume; retirement, meant to offset the then-required prefunding payments; and non-compensatory, to increase the cost coverage of "underwater" products). The PRC noted that its actions were later affirmed by judicial review.

In turn, the commission concluded that the Postal Service's requests for price increases that optimized all available rate authority were filed, reviewed, and decided in compliance with the applicable statutory requirements, and that the impacts of the pandemic and Congressional funding were properly considered.

All of this was designed to respond to the specific matters raised by the committee: the size and timing of the August 2021 rate increase, and how the pandemic's impact and Congressional assistance were evaluated by the PRC during its review of the August 2021 price filing.

The PRC made it a point to explain that its responsibility is to examine the Postal Service's rate filings for statutory and regulatory compliance, and that the Governors of the Postal Service have the responsibility to determine the magnitude and timing of price changes.

That perspective was reflected in how the commission responded to the comments from "stakeholders," like mailer groups and ratepayers, that constituted the remaining 577 pages of the 628-page document.

Among the 462 comments, most were original submissions, but scores of emailed messages had similar wording, suggesting the writers had been provided with a suggested brief statement. Not surprisingly, the Postal Service submitted a five-page letter supporting the modified ratesetting system and expressing its belief that the commission "has already more than adequately considered and studied the factors stemming from the COVID 19 pandemic that led to increased revenues for the Postal Service."

By contrast, mailer organizations and major ratepayers were critical of both the additional rate authorities afforded the USPS and how they've been used by the agency in a rapid succession of steep price increases.

However, the commission noted that "the vast majority of stakeholders [did] not provide input on the size and timing of the August 2021 rate increase, or the impact of pandemic-related factors on the rate increases for Market Dominant products, as identified by the Committee." As a result, the PRC set those comments aside, characterizing the issues raised in them as "outside the scope of this Report" which it framed narrowly to just what the committee had asked.

The commission has been criticized by some in the industry for being too hands-off and minimalist in its approach to regulating what is essentially an otherwise unfettered monopoly. In its report, the PRC did little to dispel that perception. The commission chose to adopt a very narrow focus, providing a lawyerly answer to what it saw as a specific question from the House committee, and reciting chapter and verse of the statutory, regulatory, and judicial provisions relevant to both the commission's 2020 decision to establish additional rate authorities for the Postal Service and how it evaluated their use in subsequent price filings.

In doing so, the commission did not simply avoid editorial comments, it steered a wide arc around any of the closely or tangentially related issues that it could easily have chosen to address as a regulatory agency.

For example, as the comments received would indicate, enabling more rate authority in November 2020 may have been the narrow answer to the narrow problem, but it avoided evaluating whether a solution solely based on higher prices (ignoring related revenue or cost considerations) was the most prudent long-term remedy.

That decision, critics contend, supports the perception that the PRC willfully constrains itself to a narrowly defined span of authority. Instead of asserting itself on matters that directly impact mail volume and postage costs, critics complain that the Postal Service's regulator only passively responds to what's brought to it, deferring to the governors on pricing and service issues that arguably are within its purview.

Being cautious and deferential may be appropriate in some situations, but given the aggressively self-serving behavior demonstrated by the USPS over the past few years, and its indifference to service and cost issues important to its customers, a regulator that asserts its authority just as aggressively might be a valuable and appropriate counterpoise.

October Financials Suggest Impact from Price Increases

Starting the new fiscal year, the Postal Service's October financials may be indicating a trend in volume that could be tied to recent sharp price increases for market-dominant products. Generally, revenue and volume figures were mixed; volume for three of the four market-dominant classes was lower, but revenue for them was up. First-Class Mail continued to slide, and Periodicals had a sharp decline. Marketing Mail increased, likely driven by pre-election and holiday mailings, and while revenue was higher, it wasn't up by the percentage of price increases. Meanwhile, competitive product volume paused its slow downward trend, helped perhaps by pre-season shopping. Transportation costs grew, but the workers' comp liability moved favorably by $463 million. October revenue was $6.954 billion, yielding net income of $300 million for the month. (As the first month of the fiscal year, October data is the same as year-to-date.)

Total market-dominant mail volume for the month was up 2.6% from October 2021, with a 2.3% loss of First-Class Mail more than offset by a 6.4% increase in Marketing Mail. Competitive products volume was up, but by only 0.6%. Total USPS volume was 12.388 billion pieces, up 2.5% from last October.

- First-Class Mail: 4.052 bln pcs, -2.3%.
- Marketing Mail: 7.469 bln pcs, +6.4%.
- Periodicals: 261.7 mln pcs, -17.2%.
- Total Mkt Dom: 11.846 bln pcs, +2.6%.
- Total Competitive: 515.1 mln pcs, +0.6%.
- Total USPS: 12.388 bln pcs, +2.5%.

Though market-dominant revenue should be higher because of price increases totaling over 13.3%, revenue from the market-dominant classes, compared to SPLY, actually was up only 4.9% for the month, suggesting the sharp increases may have dampened mailing activity despite election and seasonal circumstances that usually would have generated greater volume. Meanwhile, despite weak volume growth, competitive products revenue was up 5.0% in October. Total USPS revenue for the month was $6.954 billion, with its components mostly higher as well:

- First-Class Mail: $2.086 bln, +4.5%.
- Marketing Mail: $1.807 bln, +7.4%.
- Periodicals: $77.86 mln, -12.1%.
- Total Mkt Dominant: $4.285 bln, +4.9%.
- Total Competitive: $2.540 bln, +5.0%.
- Total USPS: $6.954 bln, +4.3%.

Total "controllable" compensation and benefit costs for October were $4.984 billion, and total expenses were $6.724 billion, but both benefitted from the absence of a prefunding payment, thanks to last April's legislation. A continued favorable swing in the workers' comp liability also helped. Workhour usage was 1.1% under plan for the month, but city and rural delivery workhours both exceeded plan. Total workhours were 0.6% below SPLY.

- Month's end complement: 637,020 employees (516,619 career, 120,401 non-career) **-3.71%** compared to last October (661,565 employees: 514,684 career, 146,881 non-career), but **0.38% more** *career* workers than a year ago.

Compared to pre-pandemic October 2019, USPS volume was down 4.98% (market dominant volume 5.33% lower; competitive product volume up 12.66%).