Mailers Hub News

January Summary *From the January 2, 16, and 30 issues*

***USPS Releases FY 2022 Annual Compliance Report and Annual Report***

On December 29, the Postal Service filed its *Annual Compliance Report* with the Postal Regulatory Commission. (The USPS must file its ACR no later than ninety days after the close of each fiscal year.) On the same day, the USPS also filed its *Fiscal Year 2022 Annual Report to Congress*; that document includes the Annual Report, Comprehensive Statement on Postal Operations, and Performance Report for FY 2022, as well as the Fiscal Year 2023 Performance Plan.

Both the 154-page *ACR* and the smaller (58-page) but glossier *Annual Report* are filled with statistics about many aspects of postal operations, including revenue, volume, complement, and facility data. Both present their contents, especially editorially, to minimize anything negative and cast specific details in the most favorable light.

The bulk of the *ACR* consisted of reporting, for each market dominant class, the related FY 2022 costs, revenues, and volumes by product, as well as “intra-product workshare discounts and passthroughs.” A following section of the *ACR* discussed service performance, conspicuously presenting FY 2022 performance favorably, and containing the *de rigueur* explanation of how past and future service improvements are the result of the PMG’s Plan.

The smaller, glossier, and more literary *Annual Report* presents general information about the Postal Service’s governance, including photos of the governors and top postal executives, and an overview of its functions, operations, and programs (including statistical tables about volume, revenue, and infrastructure). The included FY 2022 Performance Report and FY 2023 Performance Plan again adulates the PMG’s plan as the key to all progress but presents service performance data in statistical tables that, despite their generalization, are less misleading than the prose the agency usually uses to characterize its service. The full FY 2022 *Annual Report* is available at https://www.prc.gov/docs/124/124031/USPS-FY22\_17.zip.

USPS Expands Electric Vehicle Purchase

In a December 20 press release, the Postal Service announced it “expects to acquire at least 66,000 battery electric delivery vehicles as part of its 106,000 vehicle acquisition plan for deliveries between now and 2028.” Of the total, 45,000 will be from Oshkosh Defense, the successful bidder for the agency’s fleet of Next Generation Delivery Vehicles, with another 21,000 “expected to be battery electric” commercial off-the-shelf (COTS) vehicles “depending on market availability and operational feasibility.” The Postal Service added that it “anticipates including internal combustion vehicles necessary to meet immediate vehicle replacement needs.”

The vehicles purchased will begin to replace the Postal Service’s current delivery fleet of over 220,000 vehicles, some of which are more than thirty years old. The new NGDVs are expected to start servicing postal routes in late 2023, and will “feature air conditioning and advanced safety technology and are more suited to modern day operational requirements.” For any COTS vehicles, the agency stated it would “include a preference for domestic manufacturing.

USPS Announces Additional Rate Authorities for FY 2023

In a document filed December 30 with the Postal Regulatory Commission, the Postal Service provided the calculations for its additional (over-CPI) rate authorities under the PRC’s November 2020 final rule. According to the Postal Service’s calculations, its added rate authority under the “density” provision is 1.026%, and its “retirement” rate authority is 1.036%. The “non-compensatory” rate authority is a fixed 2% applicable to “underwater” classes and categories.

The current trend in the CPI suggests that rate authority could be approximately 2.1% when, as expected, the USPS files its next price change in early April. In turn, addition of 1.026% under “density” and 1.036% for “retirement” would bring the total rate increase that would be implemented in July 2023 to 4.162%, or more, and 6.162% (or more) for “underwater” products. Three more months of CPI figures remain to be included, so the calculated CPI figure is likely to change – up or down – as a result.

OIG Examines Mail Delivery Failures

In an audit report released December 16 (*Delivery Operations – Undelivered and Partially Delivered Routes*), the USPS Office of Inspector General examined instances where customers don’t receive mail and the systems the Postal Service has to monitor such irregularities. As the OIG stated, its objective was “to assess the Postal Service’s management of undelivered and partially delivered routes.” The OIG found that, while the USPS has reporting tools, they

“... do not identify the number of undelivered and partially delivered routes nationally. Further, NDI identifies assumed undelivered routes, but was designed as an indicator rather than a method of identifying the actual number of undelivered routes. These tools are limited due to technology constraints and the reliance on delivery unit management manually recording delayed mail, which is often underreported. As a result, the actual number of undelivered and partially delivered routes is unknown.”

In turn, it recommended that management

* “... finalize system enhancements to identify undelivered and partially delivered routes [and]
* “... enhance processes and tools to notify customers of delayed mail and undelivered and partially delivered routes.

The OIG noted that “management agreed with the finding and recommendation 1,” but disagreed with recommendation 2 because “notification to customers of delayed mail, or undelivered/partially delivered routes would require the development of a technological infrastructure far beyond existing Postal Service operational scope and purpose.”

USPS Praises its Election Mail Performance

In its *2022 Post-Election Analysis*, a document released January 9, the Postal Service reported the service it claimed to have provided “ballots [sent] from voters to local boards of elections” between September 6 and December 6, 2022.” Of the 54.4 million ballots it identified over the period, it claimed to have delivered 98.96% within three days, 99.82% within five days, and 99.93% within seven days, adding it took “less than two days [on] average to deliver completed ballots from voters to election officials.” The agency stated that it

“... processed, transported, and delivered a total of 105.4 million ballots [in 2022] – 51 million in the primaries and 54.4 million more in the November midterms (and December 6 run-off election in Georgia).”

The USPS added notes in small print:

“The total number of delivered ballots may greatly exceed 105.4 million. ... The total number of delivered ballots may greatly exceed 54.4 million. ... [Each] figure includes only those ballots that were properly identified as ballots using the correct electronic identifiers and does not include many of the ballots that the Postal Service diverted from its processing network or otherwise handled outside of normal processes in an effort to accelerate delivery.”

The Postal Service attributed much of its success to outreach and communication, stating that it made “more than 8,000 points of contact with individual jurisdictions” and distributed its “official Election Mail program kit (KIT 600) to more than 12,000 election officials.” The agency added that it formed a “Joint Election Mail Task Force with our postal service unions and management associations” and a “permanent Election and Government Mail Services Team” rather then a temporary committee as was convened in past cycles. The Postal Service has been urged to establish election mail as a distinct product – to enable accurate cost accounting – but so far has shown little interest in doing so.

PRC Issues Split Decision on Accounting Question

In an order issued January 25, the Postal Regulatory Commission gave each side of an ongoing argument a little of what it wanted.

The issue at hand is simple: how the USPS should account for the $59.6 billion in “prefunding” obligations forgiven by the *Postal Service Reform Act of 2022* enacted last April. The answer to that question would influence the calculation of USPS costs in FY 2022 and, in turn, yield rate authority for the Postal Service under the “density” adder of either about $400 million or $0.

The Postal Service is arguing its interpretation (to generate the rate authority) while a group of DC-area mailing industry associations is advancing its own (that would result in no “density” rate authority). Specifically, the sides are debating whether the “analytical principles” used by the PRC to validate USPS cost calculations cover the unusual situation of forgiven debt and, if so, how they should be applied. Conversely, if no “analytical principles” exist for the situation, the PRC would be urged to develop some before proceeding.

The PRC’s January 25 order (No. 6430) came down in the middle. It denied the mailers’ motion for reconsideration (pleasing the USPS) but agreed to open a rulemaking (pleasing the mailer group). The first thirty pages of the commission’s 32-page order reviews the history of the case and explains the PRC’s reasoning in reaching its earlier and instant decisions.

The commission’s proposed rule would adopt “Proposal One” that the mailers group had advanced as an alternative if the PRC denied its motion for consideration (which it did). The commission set February 8 as the deadline for comments on the proposed rule. Given the record of the docket (RM2023-3) so far, it’s likely that comments in opposition to the change will be filed by the Postal Service, while comments supportive of the proposal will be submitted by mailer groups. It’s also likely that all will invoke (and argue for or against) the same economic and accounting principles that were debated up to this point.

It’s difficult to decide who’s winning or losing at this point. Though the USPS seems to have won the latest battle, given that it’s been allowed to implement the approach described in its letter last August, the mailers’ group seems to have the chance to win the war, if the commission adopts Proposal One at the end of the rulemaking process. The commission emphasized that the *current* analytical principles supported the USPS approach, and could have stopped there without opening the door to changing, or adopting new analytical principles through rulemaking. That it did initiate a rulemaking could be interpreted as a willingness to adopt new analytical principles – or simply going through the motions to follow due process. Given the likelihood that the losing party may take the matter to federal court, the PRC would be keen to demonstrate that it gave proper consideration to both parties’ arguments about what the analytical principles *are* or *should be*.

GAO Finds Little Difference in Urban vs. Rural Service

Despite the common allegation that customers in urban areas get better service from the USPS than people in rural locations, a study by the Government Accountability Office found that any difference is small and favors neither. Produced in response to a request from Senator Margaret Hassan (NH), the 35-page report reviews

“... on-time service performance in rural and urban areas and the impact of USPS’s operational changes on rural on-time service performance. This report describes:

•the extent that USPS’s on-time service performance for mail and packages differs between rural and urban areas, and

•how USPS assesses the effect of operational changes on rural areas before or after making such changes.”

The GAO noted that

“USPS’s implementation of past operational changes have led to concerns about or have negatively impacted the timeliness of mail delivery (also known as “on-time service performance”). For example, we reported in 2015 that operational changes USPS made in 2012 and 2013 led to concerns that rural areas were facing declining on-time service performance. ... In 2020, the USPS Office of Inspector General (OIG) reported that USPS had implemented operational changes in July and August 2020 without analyzing likely on-time service performance impacts, and that decisions about these changes lacked consistent internal communications. The OIG found that these operational changes resulted in a significant drop in the quality and timeliness of mail delivery.”

In doing its study, the GAO “analyzed USPS on-time service performance data for domestic mail from October 2020 through December 2021 ... for four categories of mail products that comprise over 99 percent of the mail volume that USPS processes [First-Class Mail, Marketing Mail, Periodicals, and competitive products].”

The GAO reported that

“We found few statistically significant differences that were 5 percentage points or greater in on-time service performance between rural areas and urban areas for the October 2020 through December 2021 period, based on our analysis of available USPS data ... . At the national level and postal area level, we found no differences of 5 percentage points or greater in on-time service performance for any of the mail products we analyzed. At the postal district level, none of the 50 districts had a difference of 5 percentage points or greater in on-time service performance between rural and urban areas for competitive products.

“With regard to one type of market-dominant product – Periodicals – we found that eight of the 50 postal districts had a difference of 5 percentage points or more in on-time service performance between rural and urban areas ... . We also found that some of these differences favor urban areas and that some favor rural areas ... .”

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