Mailers Hub News

January Summary *From the January 3, 17, and 31 issues*

PRC Approves Competitive Product Price Changes as Filed

In a December 21, 2021, order, the Postal Regulatory Commission approved the competitive product price and classification changes filed by the Postal Service on November 10; the revised prices and changes were effective January 9. The PRC's review of the filing and other related documents led it to conclude that statutory requirements were met.

USPS Service Claims Require Readers' Scrutiny

For the last seven months of 2021, the Postal Service's public relations office has issued weekly releases touting service performance improvements. However, a closer look at those releases suggests that, while the authors' purpose seems to be to create a perception of improvement, that scenario isn't supported by their own data, and shows a trend that actually isn't as impressive as they want readers to believe. The agency's weekly claims are based on carefully selected data that it neither explains nor reveals. Looking at the quarterly scores reported to the Postal Regulatory Commission at the end of PQ IV (July-September) for example, it appears the USPS derives its weekly single score per class by weighting and blending component scores to yield a gross average. Doing so conveniently obscures sub-par performance in some areas or for some categories – like flats.

Whether a consumer, commercial mailer, or media reporter, a reader of the Postal Service's weekly PR should not take what's claimed at face value. Rather, the releases are essentially unsupported promotional assertions, at odds with the data they present, meant to create a perception of improving service despite little if any real change.

Competitive Contracts Trend Continues to be Unfavorable

The Postmaster General's 10-year Plan optimistically assumes package volume will grow and provide a critical source of revenue to offset the Plan's projected $160 billion loss. However, as we've reported periodically, the trend of competitive product contracts seems to not support such rosy expectations.

(Not all contracts are for the same products or equivalent volume, so changes in the number of contracts doesn't necessarily correlate to proportional changes in net volume.) Nonetheless, in calendar 2021, the USPS secured only 116 competitive product contracts while 253 were terminated (including 41 "early terminations"), an imbalance that appears unfavorable to plans for package volume growth.

While the PMG is pursuing packages (and turning away from hard-copy mail), he might ask whether price and service could explain why shippers' interest isn't aligning with his Plan.

USPS Announces 2022 Pricing Authorities

In a December 30 filing with the Postal Regulatory Commission, the Postal Service announced the values for the additional pricing authorities allowed by the PRC in November 2020. Based on changes in mail volume and delivery points during 2021, the USPS calculated its additional "density" rate authority to be 0.583% for 2022. Concurrently, based on revenue and payment requirements, the agency determined that its additional "retirement" rate authority for 2022 is 1.071%. (The "non-compensatory" pricing authority is a fixed 2%.) All can be used only once per calendar year and, for 2022, will be applied to the price increases planned for July. The USPS will also use pricing authority based on the CPI cap; that figure, which will be finalized when the price change is filed, is trending to be about 4.4%.

USPS Reports on its FY 2021 Service Performance

The Postal Service discussed service performance briefly in its FY 2021 Annual Compliance Report, but made the majority of its presentation in its *Annual Report on Service Performance for Market Dominant*

Products, filed separately on December 29 (USPS-FY21-29, available at https://www.prc.gov/dockets/document/120601).

In the ACR, the USPS made predictable observations about its performance and repeated claims of improved service:

> "FY 2021 proved especially challenging from a service performance perspective. The Postal Service was impacted by the COVID-19 pandemic, which led to several factors that had a significant negative impact on service performance: historically high peak season package volume; significantly high employee absences; and reduced supplier transportation capacity. Service performance was also negatively affected by extreme weather and natural disasters. These factors exacerbated the Postal Service's long-standing service performance challenges and led to very low service performance results during the first half of the year. However, the Postal Service was able to achieve sustained improvements in service performance as the year progressed. ..."

The agency also explained its approach to FY 2021 service targets, basically saying that it set them low to be closer to actual performance – and easier to achieve.

> "... the Postal Service initially deferred setting service performance targets for FY 2021 in order to ensure that it could set meaningful targets, considering the extraordinary operating conditions caused by the pandemic. When the Postal Service ultimately set its targets for FY 2021 in May 2021, the targets reflected the low achieved performance during the first half of the year. ...

The service report includes over twenty documents and spreadsheets providing a more granular view of performance and the factors impacting national-level service.

Like the ACR, there's little surprising or different in the report on service performance. What is more concerning is that all the publicized levels of service are based on less-than-complete samples of the total volume in a class of mail or samples weighted toward less work-intensive mail. As has been noted previously, service generally cannot be fairly evaluated if only a subset of mail is subject to measurement. Logically, the portion that isn't or can't be measured is likely to be less amenable to efficient processing, and hence receive poorer service. Unfortunately, the USPS isn't candid enough to openly and clearly acknowledge that, perhaps hoping readers won't notice.

Market Tests: One Starts, Another Ends

Under authorized "market tests," the USPS can determine customer interest in a proposed product and its potential for permanent availability. Two examples of such tests were noted earlier this month.

In a January 4 order, the Postal Regulatory Commission approved the Postal Service's November 10 request for a market test of USPS Connect Local Mail. Though similarly named to USPS Connect Local, a package service approved December 21, 2021, for a separate market test, USPS Connect Local Mail is a service for document delivery. The market test began January 9, 2022, and runs through January 8, 2024. At that point, the USPS can end the test, seek a one-year extension, or request that the PRC make the product a permanent offering listed in the Mail Classification Schedule.

Meanwhile, in another order issued January 4, the Postal Regulatory Commission added Plus One to the Mail Classification Schedule, making it a permanent USPS product. Plus One had been available under a two-year market test started in September 2019 and extended for another year in June 2021. On November 21, the Postal Service petitioned the commission to make it a permanent product "as an optional feature for USPS Marketing Mail High Density and Saturation Letters." Though the USPS tested the product at four different price points, ranging from $0.085 to $.0.10, the price for Plus One as a new product was set at $0.10 per card. On January 12, the USPS published a final rule in the *Federal Register* that included the DMM standards for Plus One. The primary new standards are in new DMM 602.11.

Details Emerge About COVID Test Distribution – But Not From the USPS

After getting "No Comment" as the answer from the Postal Service to even the most basic questions about the rumored use of postal carriers to distribute COVID test kits, details finally emerged on January 21 – not from the USPS, but in an article in *The Washington Post*.

The USPS is reportedly using resources originally acquired to handle package volume during the 2021-2022 peak shipping season. The *Post* was able to determine that kits addressed to the 48 contiguous states will be sent by First-Class Package Service, while those to Alaska, Hawaii, and other offshore destinations, including overseas military and diplomatic personnel, will travel by Priority Mail. Postage costs will be reimbursed by the Department of Health and Human Services.

Now that details are known, the challenge is stark: a high-profile undertaking to not simply organize and move hundreds of millions of mailpieces, but get them to their intended recipients within anticipated timeframes. Success would burnish the Postal Service's image, but any fumbling of the project would only add to existing doubts about the agency's ability to provide timely service.

Almost No Business for USPS Check-Cashing Pilot

Last September, without any public announcement, the agency quietly began a pilot test of what was framed as a check-cashing service. As then reported by *NBC News* and other outlets, the program was being tested at one facility each in Washington (DC), Falls Church (VA), Baltimore, and the Bronx.

Check-cashing businesses charge a percentage rate that could be $15 or more for a $500 check, so the lower charge at the post office would be more attractive to customers.

The USPS hadn't shown any particular interest in that business line, despite the urgings of the American Postal Workers Union (that sees it as a way to create jobs) and their Congressional adherents. Reportedly, former PMG Megan Brennan had not pursued developing the service even though the union had agreed to allow it to be tested.

Because the Postal Service was opaque about its test, it's unknown what costs are associated with the service or what new revenues were anticipated. Given that the USPS is already selling gift cards, allowing a paycheck to be used to pay for them (rather than cash or a personal or business check) should not alter costs. However, it was unclear last September when the test started whether there were any internal projections of new revenue.

Regardless, the results so far have been much less than impressive. As reported earlier this month by *Government Executive*, there's been a total of six sales at the four test sites over the four months since the pilot began, generating only $37.50 in fees.