

Postal Regulatory Commission



Order 5763: System for Regulating Rates and Classes for Market Dominant Products

Welcome!



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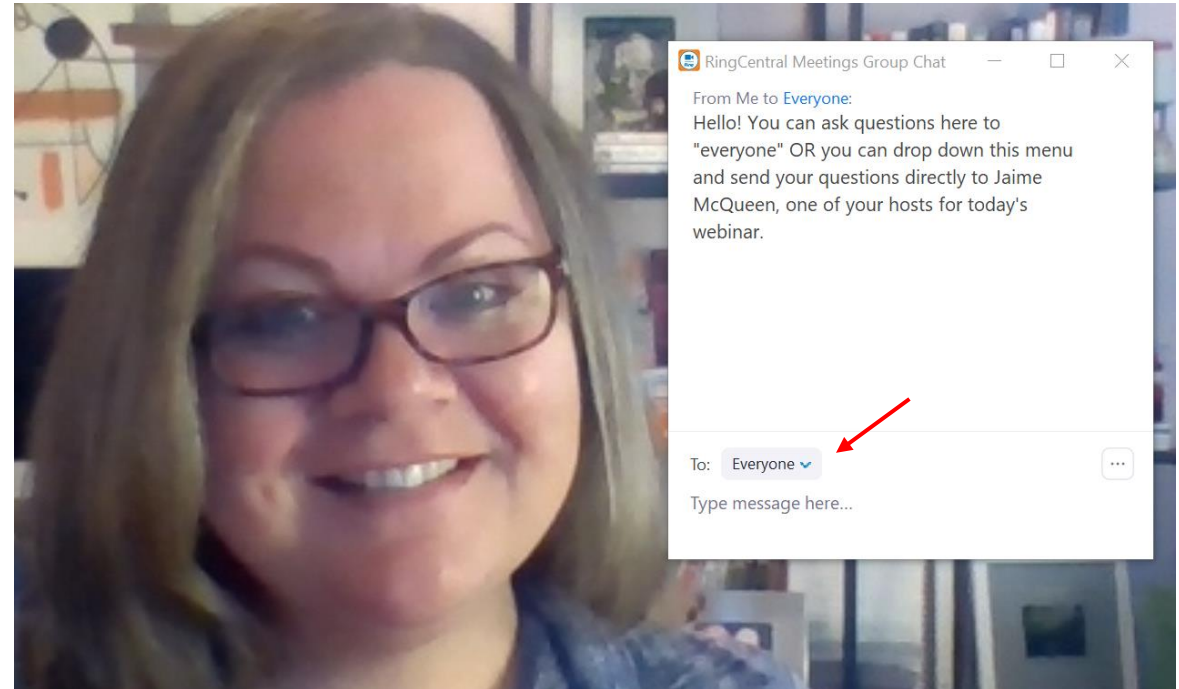


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Q&A Session

**Please feel free to
ask questions and provide
feedback during this session!**

You can ask the entire group in
the chat or send directly to the
webinar "host" Jaime McQueen if
you prefer to stay anonymous.



A bit about the PRC

- Independent federal agency that provides transparency and accountability of the Postal Service's operations
- 5 Commissioners (2 D & 3 R): *3 newly appointed in 2019*
- Appointed by the President, by and with Senate advice and consent: *6-year terms*
- Had been focused on the 10-year review of the rate cap system
 - PRC issued 2nd set of proposed rules; comments submitted
 - PRC denied requests from industry to hold proceeding in abeyance
- PRC has an interest in helping define the USPS' Universal Service Obligation (USO)

What Rule is in place now?

Current rules created in the 2006 Postal Accountability and Enhancement Act (PAEA)

- Compelled the USPS to pay in advance for the health and retirement benefits of its employees for at least 50 years
- Stipulated that the price of postage could not increase faster than inflation for Market Dominant Classes – hence the CPI reference
- Mandated 6 days a week delivery

Why new Rules now?

- Provision that after a 10-year period the system would need to be audited to determine if the system achieved the PAEA's nine objectives, considering the 14 factors established by Congress in three principal areas:
 1. Structure of Rate Making
 2. Financial Health
 3. Service
- To address perceived shortcomings in the current system, the PRC has issued Order 5763 which modifies the current system

Where are we now?

- New Rules released by the PRC Nov 30th
- Posted on the Federal Register December 15th...start the clock on 30 days until implementation means New Rules in effect January 14th, 2021
- Five Year Review

What are the new rules?

- The USPS now has additional Pricing Authority and can pass along surcharges above the existing CPI Rate Authority for the following categories:
 - **Density**
 - **Retirement**
 - **Non-Compensatory Products**
- There is language leaving room for additional **Performance Based** surcharges which would need to be outlined and likely wouldn't roll out until 2022

Density Based Pricing Authority

- Offsets “exogenous increases in per-unit cost due to declines in the average volume of mail per delivery point”
- ACR (Annual Compliance Report)
 - The institutional cost ratio defined as Institutional Costs/Total Costs
 - Changes in the number of delivery points
 - Year over year volume changes

***Fun Fact...In 2019 the USPS Served 160 Million Delivery Points (+1.4 Million)*

Retirement Pricing Authority

- Additional Rate Adjustment Authority equal to % total revenue needs to increase for the USPS to meet retirement obligations
- 5-Year phase-in plan

FY	Compounded Retirement Rate Authority Through Previous FY	Additional Retirement Rate Authority	Date Retirement Rate Authority Authorized	Date of Rate Increase
2021	0.000%	0.861%	January 31, 2021	September 2, 2021
2022	0.853%	0.827%	January 31, 2022	September 15, 2022
2023	1.666%	0.918%	January 31, 2023	September 5, 2023
2024	2.560%	1.111%	January 31, 2024	September 3, 2024
2025	3.631%	0.970%	January 31, 2025	September 6, 2025

Non-Compensatory Products

- Non-Compensatory Classes – Authorizes an additional 2%
 - USPS can bank or use their discretion on how much to pass along
- Non-Compensatory Products within Classes
 - Allows for 2% for Non-Compensatory Products within Classes in which revenue exceeded costs

Workshare Changes

- Provision states workshare discounts can't exceed 100% of the costs avoided
- PRC established a floor of 85%

And wait...there's more

- 90-day implementation
- Performance based adjustments may be recommended by PRC
- USPS required reporting:
 - Cost Analysis
 - Cost Reduction Initiatives
 - DAR Reporting (Decision Analysis Reporting) on Capital Investments

What could this look like?

Pricing Authority	Source	Updated	Typical Range (annual)	Bankable
CPI	Bureau of Labor Statistics	Monthly	1-3%	YES
Density	USPS in ACR	Annually	0-5%	YES
Retirement	OPM, USPS	Annually	0-1.25%	No
2% non-comp class	USPS in ACR	Annually	Various	Yes
2% non-comp product	USPS in ACR	Annually	Various	No

Potential Adjustments

- **Compensatory:** Could see an additional **5.6%** increase to postage rates through surcharges:
 - First-Class Mail
 - USPS Marketing Mail Non-Carrier Route Letters and High-Density/Saturation Mail
- **Non-Compensatory:** Could see an additional **7.6%** increase to postage rates through surcharges:
 - Non-Compensatory Classes
 - Periodicals
 - Package Services
 - Non-Compensatory Products in Compensatory Classes
 - USPS Marketing Mail Carrier Route
 - USPS Marketing Mail Flats
 - USPS Marketing Mail Parcels
- The USPS has the authority to pass along a CPI increase which could be an additional **0.5-1%**.

Postage Price Impact Examples

	FINAL RATES	FINAL RATES	POTENTIAL RATES		
	January 2020 Rate	January 2021 Rate	Summer 2021 Rate	Jan '20 to Jan '21 "Actual" Increase	Jan '20 to Summer '21 "Potential" Increase
First Class - Retail Letter	0.550	0.550	0.586	-	0.036
First Class - Presort Letter Average	0.419	0.428	0.456	0.009	0.037
Marketing Mail - Non-Profit Letters (DSCF 5D)	0.112	0.114	0.122	0.002	0.010
Marketing Mail - Non-Profit Flats (4 oz or less, DSCF 5D)	0.186	0.178	0.193	(0.008)	0.007
Marketing Mail - Non-Profit Flats (4 oz or above, DSCF 5D) 4.46 oz example	0.2665	0.2690	0.2922	0.003	0.026

What's next?

- Formal appeal or emergency stay order in DC circuit court
- PRC will review performance with possible changes to come in productivity and/or service standards
- USPS makes the next move which could mean a 2nd rate increase as early as mid-Summer
- PMG Louis DeJoy's New Operating Plan

Supplemental Update: Mail Delivery

Notice of delivery service impacts

USPS® is experiencing unprecedented volume increases and limited employee availability due to the impacts of COVID-19.

We appreciate your patience and remain committed to delivering the holidays to you.



Please note, no physical mail is associated with this notification.

Click **here** to
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FROM USPS

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Parcel Overload & Workforce Woes

- USPS is struggling to handle the overall mail volume that's rapidly spiking due to the number of parcels being inducted
- Five facilities have an Embargo plus 2 redirects
- Long lines for trucks waiting to offload
- Processing delays
- Delays in carrier delivery
- Loop impact on carriers
- Hold on for the next two weeks and we'll be in better shape soon!!

Processing Facility	Drop Shipment Impact	Scheduled Date to Resume Operations
Birmingham Annex	Temp. Embargo of DSCF Marketing Mail flats	Thursday, December 17, 2020 at 07:00 AM
West Valley	Temp. Embargo of DNDC/DSCF/DFSS Marketing Mail flats	Friday, December 18, 2020 at 06:00 AM
Detroit NDC	Temp. Embargo of DNDC Marketing Mail flats	Saturday, December 19, 2020 at 04:00 AM
New Jersey NDC	Temp. Embargo of DNDC Marketing Mail letters and DNDC/DFSS Marketing Mail flats	Thursday, December 17, 2020 at 04:00 AM
Philadelphia NDC	Temp. Embargo of DNDC Marketing Mail letters and DNDC/DFSS Marketing Mail flats	Saturday, December 19, 2020 at 09:00 AM
Cleveland PDC	Temp. Redirect of DADC/DSCF letters for Cleveland and Akron to Pittsburgh PDC	Saturday, December 26, 2020 at 07:00 AM
Springdale Annex	Temp. Redirect of DADC/DSCF flats to Cincinnati PDC	Saturday, December 26, 2020 at 07:00 AM

- PRODUCTION
SOLUTIONS®
- # 2021 Postage Rates
- Effective January 24, 2021
- ## FIRST CLASS – LETTERS AND CARDS
- | Weight/Net Over (Ounces) | Automation ¹ | | | |
|--------------------------|-------------------------|-------|------------|------------------------|
| | 5-Digit | AADC | Mixed AADC | Machineable Pre-sorted |
| 3.5 | 0.398 | 0.428 | 0.450 | 0.460 |
| Postcard ² | 0.269 | 0.279 | 0.285 | 0.293 |
- ¹ Subject to \$0.05 for each automation letter that complies with the full service weightless Mail option requirements.
- ## FIRST CLASS – RETAIL LETTERS AND CARDS
- | Weight/Net Over (Ounces) | Single First Class ¹ | Single First Class ¹ Meter ¹ |
|--------------------------|---------------------------------|--|
| 1.0 | 0.55 | 0.51 |
| 1.0 | 0.75 | 0.71 |
| 3.5 | 0.95 | 0.91 |
| 3.5 ² | 1.35 | 1.11 |
| Postcard ² | 0.36 | — |
- ¹ Letters that meet one or more of the non-automation letter characteristics in Table US-1.2 are subject to the \$0.20 non-automation letter surcharge.
² Value includes double postage that is not, however, applicable, as not uniformly placed on all sides of the card.
³ The card price applies to each single or double postage when originally mailed, half of double postage must be designated for reply mail.
- ## MARKETING MAIL – NONPROFIT LETTERS
- | Entry Discount | Automation ¹ | | | | Non-Automation Machineable | |
|--|-------------------------|-------|------------|-------|----------------------------|------------|
| | 5-Digit | AADC | Mixed AADC | AADC | AADC | Mixed AADC |
| Letter's weight less (per piece price) | 0.328 | 0.364 | 0.383 | 0.381 | 0.390 | 0.390 |
| 3.5 ounces or less (per piece price) | 0.318 | 0.344 | 0.363 | 0.361 | 0.370 | 0.370 |
| | DISC ² | 0.314 | 0.340 | — | 0.357 | — |
- ¹ Subject to \$0.05 for each letter that complies with the full service weightless Mail option requirements.
- ## MARKETING MAIL – NONPROFIT FLATS
- | Entry Discount | Automation ¹ | | | | Non-Automation Pre-sorted ¹ | | | | |
|---|-------------------------|---------|---------|---------|--|---------|---------|------------|---------|
| | 5-Digit | 3-Digit | AADC | AADC | 5-Digit | 3-Digit | AADC | Mixed AADC | |
| Flats weighing 4.0 ounces or less (Per piece price) | 0.259 | 0.394 | 0.469 | 0.532 | 0.344 | 0.446 | 0.497 | 0.554 | |
| Flats weighing more than 4.0 ounces (Per piece price) | 0.387 | 0.325 | 0.450 | 0.463 | 0.275 | 0.377 | 0.428 | 0.485 | |
| | DISC ² | 0.178 | 0.316 | 0.391 | — | 0.264 | 0.308 | 0.419 | — |
| Flats weighing more than 4.0 ounces (Per piece price) | 0.866 | 0.866 | 0.866 | 0.866 | 0.866 | 0.866 | 0.866 | 0.866 | |
| | DISC ² | 0.590 | 0.590 | 0.590 | 0.590 | 0.590 | 0.590 | 0.590 | |
| | DISC ² | 0.555 | 0.555 | 0.555 | — | 0.555 | 0.555 | 0.555 | |
| + Per-piece rate | None | + 0.039 | + 0.177 | + 0.252 | + 0.315 | + 0.127 | + 0.229 | + 0.280 | + 0.337 |
| + Per-piece rate | DISC ² | + 0.039 | + 0.177 | + 0.252 | + 0.315 | + 0.127 | + 0.229 | + 0.280 | + 0.337 |
| + Per-piece rate | DISC ² | + 0.039 | + 0.177 | + 0.252 | — | + 0.127 | + 0.229 | + 0.280 | — |
- ¹ Subject to \$0.05 for each flat that complies with the full service weightless Mail option less available for Automation requirements.
² For pieces weighing more than 4.0 ounces, each piece is subject to both a per piece price and a per pound price. Multiply the number of pieces in the mailing by per piece price. Multiply the number of pieces in the mailing by per pound price. Add both results to get total postage.
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- ## RETAIL FLATS
- | Single Piece | Weight Net Over (Ounces) | Single Piece |
|--------------|--------------------------|--------------|
| 3.00 | 6.0 | 2.00 |
| 1.20 | 7.0 | 2.20 |
| 1.40 | 8.0 | 2.40 |
| 1.60 | 9.0 | 2.60 |
| 1.80 | 10.0 | 2.80 |
- Weight Net Over (Ounces) or not uniformly placed on all sides of the card.
- | Non-Automation Machineable | |
|----------------------------|------------|
| AADC | Mixed AADC |
| 0.302 | 0.311 |
| 0.282 | 0.291 |
| 0.278 | — |
- | Non-Automation ¹ | |
|-----------------------------|------------|
| 5-Digit | Mixed AADC |
| 0.691 | 0.748 |
| 0.662 | 0.679 |
| 0.613 | — |
| 1.000 | 0.935 |
| 0.774 | 0.724 |
| 0.689 | — |
| + 0.441 | + 0.418 |
| + 0.441 | + 0.428 |
| + 0.441 | — |
- ## VERSIONS
- Maximums:
20 inches
27 inches
0.75 inches
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Thank you!

We appreciate your time and are happy to send you and your team a recording of this session.

Please reach out in the chat to request your recording or email us at info@psmail.com.

Happy holidays to you and yours!

