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BEFORE THE
POSTAL REGULATORY COMMISSION WASHINGTON, DC

Statutory Review of the System for
Regulating Rates and Classes for Market Dominant Products — Docket No. RM2017-3

Comments of the National Association of Postal Supervisors (NAPS)

Pursuant to the Commission's December 5, 2019, order number 5337, "Revised Notice of Proposed Rulemaking," the National Association of Postal Supervisors (NAPS) hereby submits these comments regarding the Commission's proposed revised changes to the current market-dominant rate regulation system.

NAPS represents the interests of Executive Administrative Schedule level employees of the United States Postal Service. These individuals include postal supervisors, managers and postmasters who ensure that the full array of quality postal services is accessible to all Americans. Fundamental to their extensive postal responsibilities, NAPS members supervise and manage the approximately 633,000 members of the postal workforce and maintain an extensive postal infrastructure. Consequently, NAPS members recognize the importance of a financially sustainable Postal Service and the necessity for the government agency to provide vital mail services and products to all Americans, no matter where they reside or where they conduct business. NAPS believes that universal service is essential to postal-dependent communities, such as those located in rural and urban areas. Hence, the Postal Service's universal service obligation cannot be undermined by the financial pressures burdening the institution that is the product of a smothering rate-setting system.

Section 3622(d)(3) of the Postal Accountability and Enhancement Act or 2006 (PAEA) obligates the Commission to review the system for regulating rates and classes of market-dominant products established under the Act "to determine if the system is achieving the objectives" created in the statute. This review, required 10 years after enactment of the Act, is the basis of this docket. The PRC correctly concluded in December 2018 that the current rate system "has not achieved the objectives enumerated in 39 U.S. 3622(c)."[1] The system fails to support a universally accessible,

[1] PRC Order 4258, December 1, 2017 at 2

high-quality and sustainable Postal Service. The present rate-setting regime demands substantive change. NAPS' comments focus on the index factor on which rate adjustments for market-dominant products are based. NAPS maintains that the present CPI-U price-cap system fails the Postal Service, and provides insufficient revenue to improve postal performance and invest in postal capital. The Commission's proposal to build into future rate adjustments funds to offset the Postal Service's retiree health and annuity amortization payments and providing an adjustment to account for the increased cost-per-delivery unit due to falling mail volume is a positive step; however, NAPS believes that these steps are insufficient to fully addressed the identified issues. NAPS commends the Commission for proposing "postage-for-performance" as an incentive to enhance mail delivery standards and postal operation. Of course, NAPS considers comprehensive legislative remediation the most effective strategy for long-term postal relief; a piece-meal approach only offers temporary answers to the chronic problems plaguing America's postal system.

In December 2017, the Commission suggested a revised rate system that would grant the Postal Service enhanced rate flexibility within a CPI-U based structure. Generally, the Commission would have permitted the Postal Service 2 percent more rate authority above the CPI-U for a 5-year period. Moreover, the Commission would have conferred the agency with an additional 1 percent authority if specified performance standards were to be achieved. If immediately implemented, this blended rate system could have helped alleviate the extraordinary fiscal pressure that the thirteen-year-old rigid CPI-U based adjustments placed on the Postal Service. NAPS believes that if the Commission continued to put trust in a CPI-based annual adjustment, it would be more appropriate to utilize a price index that more precisely reflects the market in which the Postal Service actually operates. We discuss a new CPI calculation below.

In the instant docket, NAPS believes that the preservation of the CPI-U index as the basis for calculating postage adjustments, even with the contemplated modifications in the PRC's "Revised Notice of Proposed Ruling Making" (i.e., including USPS health and retirement amortization payments, providing a mail density factor, and including a performance-based adjustment)[2], falls short. However, the mail density factor would help cushion the blow of a projected 4 percent decrease in revenue per delivery point over the next 5 years.[3]

As referenced above, the proposed rate system is an improvement over the current rate regime; nevertheless, the modifications would still be unable to restore and maintain the enduring fiscal integrity of our postal system. The planned rate system would still be unable to provide the necessary resources to fulfill the postal mission to "bind the Nation together" through correspondence of the people and to "provide prompt reliable and efficient services to patrons in all areas and shall render postal services to all communities."[4] Failure to generate the vital revenue to support the Postal Service's core mission is an existential threat to universal postal service and the

[2] Revised Notice of Proposed Rule Making, December 5, 2019
[3] The U.S. Postal Service Five-Year Strategic Plan FY2020-FY2024, p. 15
[4] 39 U.S.C. §101(a)

agency itself.

Fundamental to the establish of any postage index is using the proper basis for price adjustments. The present CPI-U index, as well as the index contemplated by the PRC in its Revised Notice for Rule-Making is the Consumer Price Index for All Urban Consumers (CPI-U). This index measures changes in a expansive “basket” of goods and services purchased by all urban consumers. This index considers the spending habits of 80 percent of American households, excluding price changes and the spending preferences of rural consumers. Moreover, the buying preferences and price fluctuations experienced by urban households are not representative of the price fluctuations of the goods and services unique to the postal and delivery service industry. In fact, the Bureau of Labor Statistics establishes distinct indices for goods and services in the postal and delivery market – the CPI-Postage, CPI-Delivery Services, and the CPI-Postage and Delivery.

The CPI-U basket includes such products and services as food and beverages, housing, bedroom furniture, apparel, transportation, medical care, recreation, education, and entertainment.[5] These products are consumed by American households, but not necessarily by the delivery services industry. In contrast, the basket for the CPI-Postage and Delivery Services focuses on price inputs unique to the Postal Service and its direct competitors.[6] As such, the CPI-Postage and Delivery Services considers the products and the weighs price variations among goods and services consumed by the postal and delivery market. These preferences and price changes influence the prices charged by delivery service entities to its consumers. As a result, NAPS ardently believes that the Commission should replace the CPI-U with the CPI-Delivery Services as the basis of rate-setting for market-dominant postal products and services. NAPS would not favor using the broader CPI-Postage and Delivery Services because the Postal Service’s considerable input in that broader index will have an artificial deflationary effect.

The December 2019 Bureau of Labor Statistics Data evidences the cavernous disparity existing between the price increases experienced by all urban consumers, as compared to price increases levied by the delivery services sector of the economy (i.e., excluding the U.S. Postal Service).

[5] Consumer Expenditures – 2018, News Release, Bureau of Labor Statistics, September 10, 2019
[6] Crawford, M., Economist, Bureau of Labor Statistics (2020, January 15). Telephone interview

CPI for All Urban Consumers (CPI-U)		
Not Seasonally Adjusted		
Series Title:	U.S. city average	
Area:	CPI-U vs. CPI-Delivery Services	
Item:	DECEMBER 1997=100	
Base Period:	2006 to 2019	
Years:	**DECEMBER 1997=100**	
Year	**CPI-U**	**CPI-Delivery**
2006	201.8	171.5
2007	210.036	189.551
2008	210.228	199.456
2009	215.949	202.732
2010	219.179	228.422
2011	225.672	254.464
2012	229.601	267.265
2013	233.049	275.890
2014	234.812	279.056
2015	236.525	281.351
2016	241.432	275.589
2017	246.524	294.484
2018	251.233	306.095
2019	256.974	319.707
Annualized Inflation	**3.900**	**11.400**

[7]

The above chart measures the prices in the CPI-U versus the CPI-Delivery Services since enactment of PAEA. Inasmuch as current postage rate-setting is calibrated to the CPI-U, the U.S. Postal Service market-dominant pricing lags behind its competitors' pricing by an average annualized 7.5 percent. The average annualized CPI-U adjusted postage, excluding the 2013 exigent rate increase, is 3.9 percent; in contrast, postal competitions have found it necessary to raise their rates by an average annualized 11.4 percent. With more than a decade of hindsight, the Commission must concede that the establishment of a CPI-U based price cap, in tandem with an overly burdensome and unfair requirement to prefund future retiree health benefits, at the outset of a deep and wide recession from which the Postal Service is still attempting to emerge, was ill-advised. The Commission is now fortunate to have the opportunity and the authority to alleviate, if not correct, the situation.

[7] Bureau of Labors Statistics, computer-generated data, January 15, 2020

In summary, under the current rate system, the CPI-U index fails to reflect the costs and input-prices unique to the Postal Service and its competitors. The CPI-U measures the changes in the price of a market basket of goods and services purchased by the broad universe of urban consumers. The CPI-U contains general inflation trends of a wide variety of products that all urban Americans purchase. Obviously, this is not the same basket of products and services purchased by the Postal Service or others participants in the delivery services industry. The Postal Service is primarily a delivery operation and captures expenses related to mail acceptance, processing, transportation and delivery. It would be fair and appropriate for the Commission to use a price index that more accurately account for the price changes of entities whose function is similar to the Postal Service, such as private-sector delivery companies that include United Parcel Service and Federal Express. If the CPI-Delivery Services was used as the basis for market-dominant postage adjustments, the Postal Service would have enjoyed greater pricing flexibility and enhanced revenue. The agency would have been a better fiscal position than it presently finds itself.

The PAEA provides the Commission with the authority to abandon the flawed price-cap regime altogether, but NAPS recognizes the political consequences of cap abandonment. Recent history has demonstrated how the wrong index has compelled the Postal Service to perpetually cut costs and services. Consequently, the Commission should replace current price caps with a more rational and equitable rate system that focuses on incenting and sustaining high-quality universally accessible postal operations. NAPS urges the Commission to seriously consider creating an entirely new rate system that reflects the core values of a universal postal system. NAPS would support a reasonable phase-in of implementing a CPI-Delivery Services index as the basis of market-dominant postage adjustments.

In conclusion, NAPS urges the Commission to abandon the 13-year-old rate-setting system established by the PAEA because it fails to sustain a financially stable and viable Postal Service. This failure has resulted in the reduction of postal services to the American public. NAPS urges the Commission to adopt a new rate system that will yield a vibrant, responsive and universal Postal Service.

Respectfully submitted,

/s/ Brian J. Wagner
President

/s/ Ivan D. Butts
Executive Vice President

/s/ Chuck Mulidore
Secretary-Treasurer

/s/ Robert M. Levi
Director of Legislative and Political Affairs