

# **Pricing: Past, Present and Future**

**Areas Inspiring Mail**  
**Eastern Area**  
**February 2020**

- **Past**

- UPU-Self Declared Rates
- First-Class - Carlson Case
- First-Class Remand
- Final Prices - 55 cent stamp, lower FCM 5D letter rate, 2 percentage points on MM Flats and Parcels, minimal rate relationship and structural changes

- **Present**

- 10 Year Review
- Soliciting/vetting ideas for 2021 structural changes
- Preparing for impact of self-declared International rates in July

- **Future**

- Forward Guidance from Governors
- Product/Class Reclassification
- Enhanced Insights on Costs

## Timeline:

- Review required by PAEA
- Preliminary Proposal – Dec. 2017
- Revised Proposal – Dec. 2019
- Comments on Revised Proposal Due – Feb. 3
- Reply Comments Due – March 4

## Themes:

- PRC found current system capped at class level by CPI does not meet objectives
- Does not assure adequate revenues to maintain financial stability
  - Does not establish just and reasonable schedule for rates and classifications
  - Some claim it reduces administrative burden and creates more predictable and stable rates, but USPS feels this could be satisfied in other ways
  - Conflicting opinions on whether it maximizes incentives to reduce costs and increase efficiency and maintain high quality service standards

## PRC Proposal

- Supplemental Rate Authority is designed to allow cost coverage through 2 new mechanisms
  - Density Rate Authority (piece volume per delivery point) – compensate for loss of delivery density
  - Retirement Rate Authority – fund amortization payments toward RHB, CSRS and FERS liabilities; USPS must remit to OPM revenues generated

## Postal Service Comments

- Proposed mechanisms help adjust for non-inflation changes, but are insufficient without a true-up (rate reset) to cover current net deficit.
- Also, the mechanisms themselves have flaws:
  - Density Rate Authority – should use one symmetrical density formula, not lesser of two
  - Retirement Rate Authority:
    - Improperly dictates how Governors use this authority
    - Provides only partial funding and does not adjust after authority is phased in
    - Calculation uses before rates, and thus requires remittance of more revenue than authority generates (due to price elasticity)

## PRC Proposal

- Total Factor Productivity Growth & No Service Standard Change = 1%

## Postal Service Comments

- Efficiency gains/changes and service standards authority should not be linked - separate PAEA objectives
- Time needed to make investments to initiate efficiency gains
- Take time to develop robust efficiency measure – provide unconditional interim authority until complete
- Service standard changes already require publishing in CFR and are subject to PRC Advisory Opinion
- No question as to whether change has happened or not
- Reduction in Service Standards does not mean standards are no longer “High Quality”

## PRC Proposal

- Noncompensatory Products/Classes
  - Classes – 2% additional authority – to be used at USPS discretion
  - Products – Average price increase must exceed class average by 2 percentage points – no USPS discretion

## Postal Service Comments

- Inbound International Letters and Flats should not be subject to CPI cap - UPU sets prices not USPS
- Clarification needed for underwater products required to get 2 percentage points above average if class is not granted additional authority

## PRC Proposal

- If workshare passthrough is:
  - Greater than 100% - discount required to be reduced by at least 20%, until passthrough reaches 100%
  - Equal to 100% - discount cannot be changed
  - Between 85% and 100% - discount cannot be decreased
  - Below 85% - discount required to be increased by at least 20%, until passthrough reaches 85%
- Waivers/justifications must be filed in advance

## Postal Service Comments

- Rules as written are too restrictive, restrict pricing flexibility
- Exceptions for pending methodology changes should be added

## PRC Proposal

- Cost Reduction Reporting – designed to monitor USPS cost reduction efforts
  - Report on changes in unit costs, cost reduction initiatives and Decision Analysis Reports

## Postal Service Comments

- Efficiency/cost reduction incentives are already included in price cap and proposed efficiency authority
- Sensitive business information could be made public – suppliers, real estate transactions, intellectual property, predecisional information, etc

## PRC Proposal

- PRC's initial review extended from 34 to 51 days
- 90 day public notice prior to filing MD price change

## Postal Service Comments

- 34 day review should be retained
  - Added pre-rate adjustment proceeding should help expedite proceedings
  - Rules as proposed would only delay processing and shorten implementation timeline



**Questions?**