July 31, 2022

Postal Regulatory Commission
Via email to stakeholderinput@prc.gov

Pursuant to the Commission's invitation of May 26, 2022, "PRC Invites Stakeholder Consultation Regarding Study on USPS Rate Increases" (PRC Invite), the American Catalog Mailers Association (ACMA) is pleased to provide these comments. We qualify fully as stakeholders, accounting for a substantial portion of the Postal Service's volume.

Under the umbrella of the rate increase of August 29, 2021 (which Congress notes to have been about 7%, but which averaged just over 8.8% for the key flats categories we use), and in awareness no doubt that the pandemic exacted considerable hardship on mailers and their employees (which may be an understatement), one question Congress asked is whether the rate decision "account[ed] for" the pandemic. PRC Invite. We see no evidence that it did. The $10 billion of "emergency funding provided to the USPS," *Id.*, went selfishly to enhance the Postal Service's cash position, which at the end of FY 2021 was at the level of $27.9 billion (which we view as high). As for rates, which we see as already at levels that bring into question whether mail can survive, mailers were unexpectantly hit on an ASAP basis with the full force of price cap authority calculated with a blind, tortured formula that, as described in our Technical Statement, attached below, did not recognize the nature of the situation extant, the cause of the volume decline, or the profitability of the "higher package revenues" that resulted from the shift of volume toward parcels. *Id.* Neither did the formula recognize the profitability of the new delivery points, which perforce brought volume with them.

To make matters worse, the schedule for rate adjustments now calls for two increases per year, the larger of the two occurring generally in July, though in late August in 2021. An increase just before the fall mailing season, which is the most profitable season for the Postal Service, is bad timing on any score. But when mailers plan, not only mailing quantities but also inventory purchases, employment levels, and printing arrangements, 6-9 months out, not knowing what rate increase to expect is doubly serious. Small rate difference can move mail in or out of the profitable zone, and inventories are a critical investment

The Commission should report all of these matters to Congress.

In our Statement below, ACMA discusses with particularity the Commission's formula for density authority (presented in final form in Order No. 5763, Attachment at 25-26, November 30, 2020, Docket No. RM2017-3) and shows, among several

peculiarities and failures, that it did not recognize the shift in volume toward parcels or the profitability of the new delivery points.[1] These are matters that its design was intended to recognize. Also, the rate decision did not defer in any sense to the pandemic but was instead enhanced by it. Perhaps some guidance should have recognized the pandemic, but none did. In fact, ACMA pleaded that the USPS provide relief to mailers in the teeth of the pandemic to keep mailers healthy, quite the opposite of what it did.

Poor management of flats mail threatens to extinguish catalogs, but the loss will be much greater than the volume attrition. Catalogs bring interest in the mail and reinforce the value of mail to consumers. Consumer response from catalogs also begets more catalogs, while generating packages and other types of mail throughout the year. Brands and merchants who use the mail are loyal regular mailers who when properly cultivated, really desire to enter more volume into the system. Sadly, national postal policy has failed this group of loyal patrons. Starting in 2007, the message sent to these companies is that they better prepare to get out of the mail. Actually, Senator Ron Johnson, then chair of the Senate oversight committee, told ACMA representatives exactly this himself.

Mail declines are not a foregone conclusion but a predictable result of poor postal policy decisions. The agency's persistent "go it alone" strategy nearly insures policy and strategic decisions drive mail away. When circumstances require massive change, the USPS's newer and blatantly deliberate method of operating is to circle the wagons and determine what is best for the mailing industry without participant input or consultation. The result is waste, misfires, delays and frustrations across both sides of the spectrum.

The Commission has taken notice of persistent and inordinate cost increases for the flats products we use (which led Congress to request a special study of the matter, Public Law No. 117-108, section 206) and has taken regulatory actions on flats costs over the last decade, but all its additional reporting and activity has led to no substantive improvement. Flats have increased in cost at 2.5x the rate of inflation, compounding, for the last 30 years. Some observers are questioning whether the regulatory system has failed us and needs a complete revamp as our expectation is that the Regulator is in place to prevent excesses by a government-sponsored monopoly. Lately, it seems mailers are getting no such protections.

The system is broken. The results testify to this. The ultimate claimant and the ultimate underwriter is the mailer, who is left holding the bag for poor outcomes. Now is the time to right this ship and set sail on a more prosperous course.

Sincerely,

Hamilton Davison
President & Executive Director

[1] New delivery points are a matter of growth. They bring volume with them. We take them as a cause célèbre that should be viewed positively. For our members, they are a source of income.

Attachment: ACMA Technical Statement
Response to Commission Invitation of May 26, 2022
July 31, 2022

I. A LOOK GENERALLY AT THE COMMISSION'S DENSITY-AUTHORITY FORMULA

The Commission states that[1] [2]

> the formula for the density-based rate authority calculates the percentage amount by which per-unit costs *would be* expected to increase as a result of the observed year-over-year change in density.

For the authority calculation that followed the FY 2020 Annual Compliance Review, the one focused on herein, the formula was:

$$Authority = -\%\,\Delta\ in\ density\ from\ 2019\ to\ 2020\ x\ R_{2020},$$

where the % change in density was -10.304% and R_{2020} (the institutional cost ratio for 2020) was 0.4367. By definition, then, 56.33% of the 2020 costs were attributed.[3]

The formula was developed in Appendix A, *Id*., an appendix that is theoretical and complex, and that contains a number of assumptions, approximations, and proxies. Accordingly, an important question is: in practical, operational terms, what does the formula do and what at-issue things does it not do?

By its construction, R_{2020} provides information on the effects of volume changes on 2020 costs; thus it is determining. The percent change in density from 2019 to 2020, a measure that contains no information on changes in volume mix, functions as a driver. *See* "decline of mail density as a specific driver," *Id*. at 72. The functioning of the formula, then, is entirely hypothetical; it is directed at the question—what "would be" the percent change in the 2020 unit cost if 2020 were to experience a density change that,

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[1] Order No. 5763 at 78, italics added.

[2] In other places the Commission says it has "identified the *portion* of the increase in per-unit costs caused by the decline in mail density," and in another "the *proportion* of the increase in per-unit costs resulting from the decline in density." *Id*. at 78 and 23, italics added. We do not see that portions or proportions are developed "of the increase" in unit costs. We interpret the formula as intended to aim at a percent increase in unit cost "caused by the decline in mail density."

[3] The level of *attributable* cost is a cost-analysis result. The level of *institutional* cost is a residual, total cost minus attributable cost. It is common to express either or both levels as a proportion of, a ratio to, or a percent of, total cost. Therefore, if the institutional ratio is 0.4367, then the attributable ratio is 0.5633 (1 – 0.4367), which is to say that 56.33% of the total cost is attributable.

in percentage terms only, is like the one from 2019 to 2020?[4] The volume mix of the density change imposed is implicitly the mix of 2020. Before discussing aspects of the quantification effort, we clarify several fundamentals:

(1) R_{2020} is a 2020 manifestation of costing work that began in 1970 and is ongoing. Eight improvements were sanctioned by the Commission in 2020, and five in 2021. 2020 ACD at 9 and 2021 ACD at 10. The volume information contained in R is for a *uniform* volume change for the extant delivery points. "Uniform" herein means the same percent change in each volume category. R_{2020} may be said to *reflect* the 2020 volume mix and the 2020 points, but it contains no information that would facilitate estimating the effects of *changes* in that mix or those points.

(2) If R_{2020} is being multiplied by a density change, which it is, then the effect of the density change is being estimated as though it were a uniform volume change for the 2020 delivery points. This is developed further *infra*.

(3) If the effect of a volume change is being estimated, whether the change is set equal to a density change or to something else, it should be estimated with costs that are variable, not with costs that are attributable; by using R, the authority formula uses *attributable* costs. To keep the discussion simple, we incorporate this inaccuracy.

(4) Since attributable costs are estimated primarily on volume variability, and volume variability is estimated on *small* volume changes, the relevance of R to estimating the effects of volume changes declines as the changes become further from small.

(5) R exists only at the level of overall USPS. This is because no measure or even concept of total cost exists at any lower level of aggregation. This means any calculation of authority at a lower level, like the level of market-dominant products, is seriously defective.[5]

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[4] A less hypothetical question would be: "In going from 2019 to 2020, a density change occurred; in percentage terms, what effect did that change have on the 2019 unit costs?" The Commission did not ask that question.

[5] It can be reasoned that an R exists for a cost segment, but not for a product or a group of products. For example, consider a transportation cost segment. A percent change in transportation cost per a 1% change in volume would give a variability percent. The institutional ratio (fixed-cost percent) of the segment would be 1 minus the variability percent. But a product is different—unless it uses the entirety of all of its cost segments and does not benefit, even in a non-variability sense, from the presence of other segments, an R does not exist for it. One could think in terms of having a stand-alone cost and productive system for each product. Then each product would have an R. Then one could imagine a total cost and an attributable cost for each product, both below the stand-alone levels.

II. A LOOK AT THE DETERMINANTS OF DENSITY

Consider the determinants of density (D). By definition

$$D = \frac{V}{N} = V\ x\ N^{-1}, \text{ where N = the number of delivery points.}$$

Taking a total derivative, we get

$$dD = \frac{\partial D}{V}\ dV + \frac{\partial D}{N}\ dN = N^{-1}\ dV - V\ N^{-2} dN.$$

The percent change in density is $\frac{dD}{D}$. Thus

$$\%\ \Delta\ in\ density = \frac{N^{-1}\ dV}{\frac{V}{N}} - \frac{V\ N^{-2}\ dN}{\frac{V}{N}} = \frac{dV}{V} - \frac{dN}{N}.$$

For small changes, then, and for somewhat larger changes approximately, the percent change in density is simply equal to the percent change in volume minus the percent change in the number of delivery points.[6] This means that the effect on density of an x-percentage-point decline in volume is the same as the effect of an x-percentage-point increase in the number of delivery points.

Further, the authority formula can be written as

$$Authority = -(\%\ \Delta\ in\ volume\ x\ R_{2020}\ -\ \%\ \Delta\ in\ delivery\ points\ x\ R_{2020}).$$

This shows, for example, that the effect on unit cost and authority, like the effect on density, of a 1% decline in volume is the same as the effect of a 1% increase in delivery points, and similarly that the effect of a 2% decline in volume paired with a 0% increase in points is the same as the effect of a 1% decline in volume paired with a 1% increase in points. These equivalencies are untenable. Another way to look at this is to say that density is a wayward driver of costs, certainly not useful here.

This is a serious problem. Density is the additive sum of two things that are quite different, and one would not expect changes in them to have the same effect on costs. Either the maintained hypothesis underlying the authority formula's specification is invalid or the steps that led to it do not represent reality. The formula cannot be expected to give meaningful results.

[6] Going from 2019 to 2020, the change in volume was -9.389% and the change in points was +1.021%, suggesting a % Δ in density of -10.410%. The actual % Δ in density was -10.304%. The two are slightly different because the change in volume deviated a little from "small."

III. THE INTERPLAY BETWEEN VOLUME AND DELIVERY POINTS

The results of Section II were based on two partial derivatives, (1) D with respect to V and (2) D with respect to N. But as a practical matter, it is not possible to change N without changing V *pari passu*. That is, new delivery points bring new volume.

In fact, it seems likely that new points tend to receive and send more volume than vintage points,[7] as new households, new families, and new businesses usually need to correspond and usually are targeted. Further, new points might well have lower costs than vintage points, as new points might be served by cluster boxes, be interspersed among existing points, and be apartments or condominiums with mail rooms. By any measure, new points should increase efficiency and enhance profitability. The Postal Service should certainly be happy to have them.[8] And it probably helps that urban areas are growing faster than rural areas.

In 2019 the volume was 142,570 (in millions) and in 2020 was 129,184. In 2020, there were 139.9 vintage stops and 1.43 new stops. *If the new stops received the same per-stop volume as the vintage stops*, it follows that the vintage stops received 127,879 pieces and the new stops 1,305 pieces. Using these figures, the volume to the vintage stops declined 10.304%. This 10.304% is exactly the decline in density.

So, under a reasonable assumption, the percent change in density is nothing more than a way of measuring the percent change in volume to the vintage stops. It is not rich or unique in causal properties.

IV. A DEVELOPMENT OF THE COMMISSION'S FORMULA MAKES CLEAR WHAT IT DOES

Normally, estimating the effect of a change that occurred to 2019, as it morphed into 2020, would be done by imposing the change on 2019 and taking the difference (2019 with the change minus 2019 as reported). Instead, the Commission's formula imposes the change on 2020, which already reflects the change, and reflects as well a range of other cost-causing factors, including inflation.

Section II established that the percent change in density is the percent change in volume minus the percent change in delivery points. This was shown to suggest major

[7] In a specific year, "vintage" delivery points refers to points that also existed in the previous year; they are not new points.

[8] Increases in the number of delivery points have been in the neighborhood of 1% per year. But to see the effect, suppose the number of points doubled. The Postal Service would spring into the black and be faced with the need to reduce rates. To be discouraged by new delivery points is to be discouraged by the advent of growth, something normally viewed as inherently good.

difficulties with the authority formula. Section III explained that new delivery points would bring volume with them and that the new volume would, in all likelihood, be quite profitable. It also showed that the percent change in density is a measure of the percent change in volume to the vintage points. We now ask how the density formula should be viewed.

As a simple point of reference, consider how the effects of volume changes have been estimated in postal analyses, and assume (wrongly, but as the Commission's formula does) that attributable costs are variable.

Let TC = total cost, ATT = attributable cost, FC = fixed cost (interchangeably called institutional cost), and UC = unit cost. When a uniform volume change occurs for the extant delivery points, the attributable cost changes in proportion to volume and the fixed cost remains relatively unchanged, at least for small changes. Let subscript 1 be a base position, like 2020, and subscript 2 be after a hypothetical volume change. In the base position, we know by definition:

$TC_1 = ATT_1 + FC_1$

$FC_1 = R \times TC_1$

$ATT_1 = (1 - R) \times TC_1$

$UC_1 = TC_1 / V_1 = \frac{ATT_1 + FC_1}{V_1}$

The Commission explains that it wants "the percentage amount by which per-unit costs would be expected to increase as a result of the observed year-over-year [decrease] in density." *Id*., "change" changed to "decrease." For 2020, we take this to mean a decrease *like* the one from 2019 to 2020, which involved a decline in volume, an increase in delivery points, and a change in volume mix. As shown above, the *percent* change in density, which is all that is entered into the formula, is a measure of the change in volume for 2020's vintage points. Instead, let's apply the percent change in density as though it were a uniform volume change to <u>all</u> of 2020's points. Let z = the % change in volume, so z = -0.1 means a 10% decline in volume.

By virtue of the characteristics built into the costing results, we can say:

$$UC_2 = \frac{(1+z)Att_1 + FC_1}{(1+z)V_1}$$

The % change in UC = $\frac{UC_2 - UC_1}{UC_1} = \frac{\frac{(1+z)ATT_1 + FC_1}{(1+z)V_1} - \frac{ATT_1 + FC_1}{V_1}}{\frac{ATT_1 + FC_1}{V_1}}$

Substituting R for $\frac{FC_1}{TC_1}$, and reducing, we get

$$\%\,\Delta\ in\ UC = \frac{-z}{(1+z)}\ x\ R,\ which,\ for\ small\ values\ of\ z,\ = -z\ x\ R.$$

This is exactly the Commission's formula, which establishes that the Commission holds the fixed costs constant and applies the 2019-2020 percent change in density to 2020 as though it were a uniform percent change in volume to all of 2020's delivery points. This is hardly what the Commission set out to do. It analyzes the mix of 2020 instead of the change in mix that occurred after 2019; it definitely holds the fixed costs constant; it imposes a volume change larger than the one that actually occurred; and it does not recognize any new delivery points or the profitability of the volume going to them. The formula is not applicable.

It is true that "fixed costs" are often held fixed, though that may be somewhat out of line with the interest here. Generically, fixed costs are not a pool of costs (identifiable or not) that are fixed. Rather, they are a residual. In going from one position to another, the Postal Service should, and likely does, control its total cost as best it can, find a new attributable cost, and then subtract to get a new residual. Assuming the previous residual to remain unchanged fails to recognize any success in controlling total cost, a failure that is a weakness here. Any decline in fixed cost causes the formula to overestimate the percent increase in unit cost and to fund what does not need to be funded.

Comments in Docket No. RM2017-3 asked about the recognition of mix. The Commission's response was that the level of R, here for 2020, obviously *reflecting* any mix change from 2019, is different from what it would have been without the mix change, and thus that the result of the hypothetical volume change, of 2020 mix, imposed on 2020, will give a different authority than without the mix change. *See Id*. at 94-95.

The mechanism envisioned by the Commission is that, for example, if the 2019 mix shifts toward products with relatively high per-piece margins, such as parcels, which would improve profitability beyond what would be expected from the decline in volume, a lower R in 2020 would recognize it and the formula would generate less authority. It explains that the "cost elasticities of each cost segment" are "captured" and "are in turn indirectly captured by the institutional cost ratio." *Id.*

It is true that a calculable R exists for each cost segment. That is, there is a percent attributable for each segment, and the percent fixed, which is R, is one minus the percent attributable. Let α_i equal the percent fixed for segment i. Segment i also has a cost proportion, β_i, which is the total cost of it divided by the total cost of the Postal Service. It is relatively easy to show that $R_{overall} = \frac{1}{TC}\ x\ \sum(\alpha_i\ x\ \beta_i)$. And we know $\sum \beta_i = 1$, so that when a β increases, one or more others must decrease.

In the authority formula, the hypothetical volume change, taken to be equal in percent terms to the percent change in density, is a *piece*-oriented measure. Its value, then, is not affected by pieces shifting. The only other variable is R_{2020}. For it to be affected downwardly, to give lower authority due to mix, requires the higher-per-piece-margin products to have lower α values. We know of no evidence that this is a

phenomenon, nor would we expect there to be any. Certainly it would need to be proven before it could be relied on, and the Commission has not done that. Until proven otherwise, we believe the effect of a mix change is not recognized.

An alternative to having the α values correlated negatively with the per-piece margins is to have the β values vary similarly. But increasing a β value simply moves the sum in the direction of the associated α value, so the problem reverts to the α values and does not go away.

Limited evidence can be brought to bear on these conclusions, limited because many factors beyond volume affect costs. In 2010, 0.84% of the volume was competitive. In 2020 it was 5.52%, a proportion that is 6.57 times as high. Over the same period, the unit cost increased 44.3%, from 44.2 cents to 63.8 cents. So far as we know, a weighted unit cost index for the overall Postal Service is not available, but we believe a large part of this increase is due to volume increases for the competitive products, and we believe the revenues increased right along with the volume. The associated institutional ratio went from 45.0% to 43.8%.

It seems apparent that Congress asked about mix because products with higher per-piece margins, like parcels, might lead to higher profits, lessening the need for a rate increase. This suggests another problem—there is nothing in the authority formula to recognize what happens to profits. For example, a high-margin parcel would count as one piece in the density calculation, but add substantially to revenue.

In response to this question, the Commission explains that "factoring in revenue (or contribution) would not comport with the *necessity* of compensating the Postal Service for unavoidable increases in per-unit costs," and further that "calculating the density-based authority as a particular revenue or contribution level would inadvisably tie the amount of authority to the Postal Service's pricing decisions." *Id.* at 95, italics added, paren in original.

When a change in mix causes a significant increase in revenue, as high-margin parcels would, it is far from clear, indeed it is confounding, that there should be a "necessity of compensating the Postal Service." Generally, firms are quite happy with cost increases that are accompanied by even-larger revenue increases, increases that are neglected entirely here. Although we do not advocate an attempt to maintain a certain profit level, we see it as no more difficult to estimate the effect of a volume change on profit, *ceteris paribus*, than to estimate the effect of a volume change on cost, *ceteris paribus*.

The Commission uses R as a "proxy for the elasticity of unit costs with respect to density." *Id*. at 94-95, footnote omitted. Using the result above and the result of the last section, an expression for this elasticity is:

$$Elasticity = \frac{\%\,\Delta\, UC}{\%\,\Delta\, D} = \frac{\frac{-z}{(1+z)}\ x\ R.}{\frac{dV}{V} - \frac{dN}{N}}$$

The numerator is good only if dN=0. With dN=0 in the denominator as well, and recalling that z = dV / V, the elasticity reduces to -R for the case of a small z. The purpose of the entire analysis, however, is to work with the case where dN is not equal to zero. Thus the proxy fails the most in the case where it is needed the most. It is much closer to being an elasticity with respect to volume than density.

The conclusion is that the Commission's formula, if R and the percent change in volume are for the same year, as they are, is a proper one for estimating in that year the percent change in unit costs that would be caused by a hypothetical, uniform percent change in volume for that year's delivery points, if the fixed costs remain unchanged. But if the change in density is applied as though it were a volume change to all delivery points, as it is, then it overestimates the effect of the volume change and fails to recognize the profitability of any change in mix or the profitability of any new delivery points. Therefore it overestimates the authority result.

V. THE LINK OF UNIT COSTS TO PROFITS IS FRACTIOUS AT BEST

The Commission views density as one of the drivers of unit cost; we have shown it to be a poor one, to the point of being unacceptable. The Commission views unit cost as a "driver of the Postal Service's net losses," likely meaning of the Postal Service's net income or profit. *Id*. at 86-87, *see also* 99. On examination, however, unit cost hardly qualifies to be a driver of profit—the relation of it to profit is anything but orderly.

Let π = profit and P = price. By definition π = TR – TC. We can express π as

$$\pi = \frac{TR}{V}\ x\ V - \frac{TC}{V}\ x\ V.$$

We know that $\frac{TR}{V} = P\ and\ \ \frac{TC}{V} = UC.$

Thus $\pi = P\ x\ V - UC\ x\ V.$

In delta form $\Delta\pi = \frac{\partial\pi}{\partial P}\ \Delta P + \frac{\partial\pi}{V}\ \Delta V.$

This can be developed using the chain rule for UC *x* V. If ΔP = 0, we get

$$\Delta\pi = (P - UC)\ x\ \Delta V - V\ x\ \Delta UC.$$

P - UC = the per-piece contribution. It follows that

$$\Delta\pi = (per\ piece\ contribution)\ x\ \Delta V - V\ x\ \Delta UC.$$

Therefore, if a change in unit cost is caused by a change in volume, as it is in the authority formula, it does not reach profit until it is multiplied by –V and then added to the per-piece contribution times ΔV. Thus, unit cost is not an unalloyed driver of changes in profit. At best it is a complex driver that is difficult to understand.[9] One could say that it is more endogenous than exogenous, which appears to make it useless.

The Commission's formula estimates the percent effect on the 2020 unit costs (which are the unit costs that existed for the actual 2020 volume, new delivery points and all) of a hypothetical 2020-mix volume decline of 10.304%. This is larger than the actual volume decline. Even neglecting the mix question and the question of whether the fixed cost is really fixed, this has nothing to do with the effect of any new delivery points, which would be expected to be profitable, in all likelihood more profitable than the vintage points. The formula neglects the new points, their volume, and their revenue. For these reasons, the formula is an overestimate of any burden placed on the Postal Service from the density change. Since the object of the density analysis was to recognize the effect of volume and new stops, the formula is fatally flawed. Some justification is needed before the formula can be used.

VI. THE DENSITY APPROACH DOES NOT DEAL WITH CYCLES

The Commission's authority scheme, which does not force rate declines, does not deal fairly or in a balanced way with cycles. Generically, a cycle occurs when something increases and then decreases, or decreases and then increases, or simply has a trend that fluctuates. Beyond the possibility of cycles in the economy, the Postal Service can have cycles of its own. For example: An election might cause a volume increase in one year, only to come down the next. A pandemic or epidemic can cause volume to decline, only to increase later. Decisions relating to mail-in voting can have more effect in one year than another. Government programs can have a fluctuating effect. Fluctuating exchange rates can affect various sectors of the economy. A war or a recession could cause big changes. If the volume declines, authority is given and the rates increase. If the volume then increases, returning all that was lost on the downturn,[10] the authority formulas can be calculated but the Commission's rules say that a rate decrease is not required. The new rates stay in forever, even if no longer needed. Then if the volume declines again, the rates increase more, building on themselves.

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[9] The Commission states, correctly we believe, that "most cost drivers are correlated with volume." *Id*., Appendix A at 5. It is not clear that profit is correlated in a helpful way with unit cost. In fact, the correlation seems unhelpful in extreme degree.

[10] An interesting question is whether belt-tightening during a downturn might allow a tighter belt when the volume returns.

VII. CONGRESS ASKED ABOUT HOW IT'S $10 BILLION PROVISION WAS RECOGNIZED

Noting the "approximately 7 percent" rate increase that was implemented on August 29, 2021, Congress asked whether the "emergency funding provided to the USPS" was accounted for. The funding, $10 billion, was a provision of the CARES Act, passed March 27, 2020. According to the FY 2021 Integrated Financial Plan (IFP), filed with the Commission on November 24, 2020, the Postal Service reached an agreement in principle with the U.S. Treasure on July 29, 2020. The only step remaining was to memorialize the agreement in documents.

On December 30, 2020, in Order No. 5763, the Commission made a final determination of the formula to be used for the rate authority. On December 31, 2020, the Postal Service filed its version of the authority it would receive for the August 29 increase. Since the formula was clear and the inputs to it were not subject to debate, there was every reason to believe that the Commission would agree. It did just that on April 6, 2021, in Order No. 5861.

So when the Postal Service was planning the rate adjustment, and when the Commission was issuing the formal version, the $10 billion dollars from Congress was understood. In response to Question No. 2 in CHIR No. 24, Docket No. ACR2021, the Postal Service indicated that it spent $8.7 million of the funds on compensation and benefits and $1.3 billion on transportation. These did not affect the USPS net income, however, because they did not affect the level of revenues or costs. The 2021 IFP reported theoretical unrestricted liquidity of $15.4 billion, and the 2022 IFP reported $27.9 billion. Most of the increase was allowed by the $10 billion from Congress.

The USPS net income for 2020 was $-9.2 billion and per the 2021 IFP was planned to be $-9.7 billion in 2021. So the grant by Congress did not affect these. The question facing the Postal Service, if not the Commission, was whether the $10 billion was intended to go directly to USPS liquidity or whether it was also intended to help mailers as well, who were also affected by the pandemic.

If the 7% increase is applied to the 2020 market-dominant revenue of $41.8 billion, the result is about $2.9 billion. This is less than a third of the $10 billion. This may be a judgment call, but it would certainly seem reasonable to use $2 billion or so of the $10 billion to reduce the August 29 rate increase.