

Areas Inspiring Mail: Regulatory Update

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Our Thanks

The Commission appreciates being invited here today

Special thanks to Michael McInturf for organizing



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Presentation Disclaimer

This presentation represents my views, not necessarily the views of the Commission



PRC Ex Parte Rules

- When Matters are No Longer Before the Commission
 - Ex parte communications policy is no longer applicable once a matter is "no longer before the Commission." This generally occurs upon the Commission's issuance of the final order or decision in a docketed matter. See 39 C.F.R. § 3008.3(d)(1).
 - Ongoing litigation invokes Ex Parte rules



Commission Status (COVID-19)

- Due to the ongoing COVID-19 Pandemic, the Commission has switched over to 100% full-time telework for the entire agency
- The Chairman, and the Commission, are committed to pursuing the work of the agency, but health and safety of our staff is paramount.
- Due to thoughtful development of a Continuity of Operations protocol for the Commission prior to the pandemic, the PRC has continued to work without interruption
- The PRC is currently reviewing its telework policy in light of lessons learned from telework during the pandemic



Commission Status (COVID 19)

- Publication of Annual Compliance Determination and Financial Report is now underway and continues on schedule
- Negotiated Service Agreements continue to be reviewed in timely way
- The rate review work is completed
- Work continues on dockets that we will touch base on later in this report



Role of the USPS Board of Governors

- The Board of Governors is comparable to a corporate board of directors
 - The Board normally consists of up to nine part-time governors appointed by the President of the United States with confirmation by the Senate
- The Board provides executive leadership:
 - Sets postal rates
 - Establishes service performance standards
 - Directs operations to meet service performance goals
 - Controls USPS expenditures, long-range planning, approves officer compensation and capital investments



Role of the PRC

- The PRC is the regulator, while USPS is the operator (manager)
 - The Commission's focus is on legal compliance, operational decisions are left to the Postal Service Board
- Commission's focus is transparency and accountability of Postal Service operations and finances
- The Commission may direct the Postal Service to address issues of noncompliance through the Annual Compliance Determination, but it is up to USPS as the operator to manage how it achieves compliance



Commission Makeup

- The Postal Regulatory Commission currently has a full complement of Commissioners (5), as well as a new Chairman, Michael Kubayanda, as of January 25, 2021:
 - Chairman Michael Kubayanda's term expires on November 22, 2020
 - Vice Chairwoman Ashley Poling's term expires on November 22,
 2024
 - Commissioner Mark Acton's term expires on October 14, 2022
 - Commissioner Robert Taub's term expires on October 14, 2022
 - Commissioner Ann Fisher's term expires on October 14, 2024



USPS Leadership

- Louis DeJoy became Postmaster General on June 15, 2020.
 - Former PMG Megan Brennan announced her retirement at the beginning of 2020, but she continued to serve until Mr. DeJoy formally took over



USPS Board of Governors

- David C. Williams Resigned on April 30, 2020
- Ron Bloom Chairman of the Board Confirmed by the Senate on August 1, 2019
- Roman Martinez IV Vice Chairman of the Board Confirmed by the Senate on August 1, 2019
- Robert Duncan –Confirmed by the Senate, August 28, 2018
- John Barger Confirmed by the Senate on August 1, 2019 (Mr. Barger also serves on the Federal Retirement Thrift Investment Board)
- William Zollars of Kansas—Confirmed by the Senate on June 18, 2020
- Donald Lee Moak of Florida—Confirmed by the Senate on June 18, 2020



USPS Board of Governors: New Nominees

On February 24, 2021, President Biden announced three new nominees to the USPS Board of Governors

- Ron Stroman, former Deputy Postmaster General
- Anton Hajjar, former general counsel of American Postal Workers Union
- Amber McReynolds, CEO of the National Vote at Home Institute.
- Confirmation of these nominated individuals would result in a Democratic majority on the Board.
- Ron Bloom is currently serving in his holdover year, as his term expired on December 8, 2020, and John Barger's term expires December 8, 2021



R2017-3 Review of the System of Ratemaking

- Completed November 30, 2020
- CAN review with you the procedural status
- My Concurring View in original NOPR: I look forward to hearing from the mailing community with comments based on solid quantitative, technical and well-supported legal analysis, how the Commission's proposal may be improved.
- PRC received well over 500 comments during review process
- Feedback was critical to development of each step in the process



R2017-3 Review of the System of Ratemaking

- This Final Rule is currently in litigation, but petitioners have filed for an expedited hearing
- Court denied Motion to Stay on final rule, meaning USPS can use new rate cap authority resulting from the Final Rule in its next rate case



FY 2020 Annual Compliance Determination

- On December 29, 2020, USPS filed its Annual Compliance Report (ACR) with the Postal Regulatory Commission
- Statutory deadline for Commission completion of Annual Compliance Determination (ACD) is 90 days from receipt of the ACR, which is March 29, 2021
- The ACD is the Commission's single-most important regulatory compliance tool
- The focus of this review is to bring accountability and transparency to issues such as service performance and product cost coverage



January 2021 Monthly Report

- On February 22, 2021, the Postal Service filed its financial results for January 2021 with the Postal Regulatory Commission
- The Postal Service's net loss in January 2021 was \$310 million compared with a net loss of \$1.577 billion in January 2020 (SPLY)
- The Postal Service's \$8 million YTD total net income is \$2.3 billion-- \$0.8 billion higher compared to SPLY and the plan, respectively.
- Total revenue is \$2.4 billion and \$1.5 billion higher than SPLY and the plan, respectively. Total operating expense is \$1.3 billion and \$0.7 billion higher than SPLY and the plan, respectively. Note that YTD has one less delivery and 1.75 retail days compared to SPLY.



January 2021 Monthly Report

- Compared to SPLY, expenses decreased across all categories except for transportation, supplies and services, vehicle maintenance, information technology, and other expenses
- YTD total mail volume declines by 3 billion pieces compared to SPLY. Market Dominant and International mail volume declines by 3.4 billion pieces (7.2%) and 142 million pieces (46.1%), respectively. Shipping Services mail volume increases by 585 million pieces (28.9%).



January 2021 Monthly Report

- YTD mail revenue increased by \$2.4 billion. Comparatively higher Shipping Services mail revenue of \$3.4 billion (40.1%) fully offset revenue declines in Market Dominant mail of \$1 billion (6.1%).
- USPS Liquidity at the end of January 2021 increased by \$4.8 billion and \$0.8 billion compared to SPLY and the prior month, respectively. The \$16 billion in unrestricted cash represents approximately 82 days of expenses
- This data filing can be found on the PRC website (<u>www.prc.gov</u>) under "USPS Reports"



Universal Service Obligation (USO) Program

- The USO is an important focus of the Commission
- Commissioner Taub also put out an Op-Ed regarding the USO on May 20, 2020
 - He stressed that basic best practices call for any organization, private or public, as a first order of business to develop a clear and concise Mission Statement
 - For instance, the PRC's mission is to "ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system."



Universal Service Obligation (USO) Program

- There is broad agreement that the statute regarding the USO is conflicting and outdated, and any meaningful change is predicated on defining the USO.
 - Defining the USO is needed to establish the USPS's mission into the future
- PRC's engagement regarding the Universal Service Obligation is rooted in statute:
 - The Postal Accountability and Enhancement Act of 2006 mandated that the PRC develop an authoritative summary of the USO
- On December 19, 2008, the Commission presented its USO study to Congress.
 - Remains to the day the most comprehensive look at the USO including a working framework of the elements that comprise the USO:
 - Range of products, uniformity of price, frequency of delivery and such
 - That report is a dozen years old
 - There is a clear need to update and further expand this work



Universal Service Obligation (USO) Program

- The Commission had planned to have a USO Speaker Series, but has had to postpone this effort due to the pandemic and the need to focus resources on more immediate concern.
 The Series still remains in the Commission's future plans.
- Point of featuring USO being that the Postal Regulatory Commission has been previously been delegated by Congress by law to help on the USO front and we stand ready to do so again



701

- 701 reports reflect the Commission's assessment of how well the PAEA is operating and is an opportunity to recommend legislative measures needed to improve the effectiveness and efficiency of our Nation's postal laws.
- The Commission is required to issue a report every 5 years
 - its first one was submitted to Congress and the President in 2011, and the second in 2016.
- PRC will be issuing third 701 Report in 2021.
- PRC is preparing now an "interim" report should it be needed.



701 Status

The Commission's last 701 report in 2016 featured the following:

- The Commission renews its recommendation from its 2011 Report that Congress modify the retiree health benefits fund prefunding level and payment schedule as a measure to improve Postal Service sustainability.
 - Decreasing the funding target to one more in line with industry norms would provide much needed improvement in the Postal Service's assets to liabilities ratio.
- The Commission recommends lengthening the amortization period of the current unfunded liability.
 - The current amortization period is 40 years. Extending the amortization period would free significant capital by reducing Postal Service annual payments.



701

- Commissioner Acton's focus:
 - Defining Universal Service Obligation
 - PRC budget process
 - Return PRC budget to Postal Service Fund/BOG approval rather an Congressional appropriations process
 - Revise prefunding investment approach so more in keeping with private pension investment planning
 - Re-amortization of USPS retiree and employee health benefits obligations to allow for more time to pay



701

- Commissioner Acton's focus:
 - For purposes of closure "appeal" process: clarify the term "Post Office"
 - Does it include contract Post Offices for instances
 - Rename from "appeal" to "review of USPS administrative record" used in determining fate of PO
 - 701 review will be conducted in 2021, as is done every 5 years by statute



QUESTIONS?



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