



July 13, 2021

The Honorable Glenn Grothman
House of Representatives
Washington, DC 20515-4906

Dear Congressman Grothman:

This responds to your July 1 letter to Postmaster General Louis DeJoy, cosigned by several of your colleagues, requesting that the U.S. Postal Service reconsider the implementation of the proposed price increase in August 2021 and the full use of new pricing authority provided by the Postal Regulatory Commission (PRC).

Thank you for sharing your concerns. As you know, under the Postal Accountability and Enhancement Act (PAEA) of 2006, the PRC administers regulations and pricing rules based on whether a product is considered "market dominant" or "competitive." Since the enactment of PAEA, we have not had sufficient pricing authority for our market dominant products to adequately respond to changing market realities. The pricing model for our market dominant products was predicated on a price cap that did not account for volume changes, growing costs, or other factors, including those largely outside of the Postal Service's control. For nearly four years, the PRC reviewed the pricing system, considering feedback from all stakeholders, and concluded that this system was unsuitable for ensuring the Postal Service's ability to provide prompt and reliable universal services in a self-sufficient manner. The PRC made adjustments to the system accordingly. While we do not believe the new rules went far enough, they provide much needed additional pricing authority to enable the Postal Service to achieve our goals as laid out in the "Delivering for America" plan, and help us to achieve the self-sufficiency that is required under the law.

The PAEA capped price increases for mailing services at the Consumer Price Index (CPI); however, recognizing this cap as a detriment to the financial stability of the Postal Service, the PRC adopted new rules in November 2020 that adjust the CPI price cap based on factors outside of the Postal Service's control, such as declining density and retirement-related amortization costs. Had the Postal Service previously been able to respond to changing market realities by adjusting prices under this new authority, it is likely that we would not be in such a dire financial state. It is estimated that the Postal Service would have generated an additional \$55 billion in cumulative gross revenue since 2006 with this new authority. As it stands, however, the Postal Service has suffered more than \$80 billion in cumulative net losses since the PAEA's enactment, including a \$9.2 billion net loss in Fiscal Year (FY) 2020 alone.

The Postal Service certainly recognizes the educational, cultural, scientific, and informational value of magazines, periodicals, and newspapers and the importance of solicitations for charitable causes. We also understand the importance of ensuring affordable rates for our customers. Following these increases, our prices will remain among the world's most affordable, while also enabling us to begin addressing the issues that led the PRC to give us additional pricing authority. In this regard, it is important to note that many of these products have not covered their costs for many years. Furthermore, even if the Postal Service were to use all the pricing authority granted by the PRC, we would still incur a net loss of about \$10 billion in FY 2022 and fail to generate sufficient cash to meet our legal obligations and to fund our operations.

The income from a price change in August 2021, along with our other strategic initiatives, is an essential component of our plan to achieve fiscal solvency. The Postal Service's Board of Governors took all these considerations into account when they made the pricing decisions.

Clearly, COVID-19 impacted our market dominant products; however, products like First-Class Mail, Marketing Mail, and Periodicals have been exhibiting long-term declining trends prior to last year. From 2014 through 2019, First-Class Mail had been declining about 2.9 percent per year; in FY 2020, it declined 4.8 percent. Moreover, our most recent data indicate that First-Class Mail declined 4.6 percent through May of 2021. Marketing Mail declined 1.2 percent per year prior to the COVID-19 pandemic, declined 15.4 percent in FY 2020, and recently increased 0.4 percent through May 2021. Nonprofit Marketing Mail declined 6 percent in FY 2020, but increased 8.1 percent through Quarter 2 of FY 2021. Periodicals declined 5.2 percent annually before COVID-19, 13.6 percent in FY 2020, and 10.2 percent through May 2021. Generally, it appears that at least in the short-term, market dominant mail is recovering from the impacts of the pandemic, but the preexisting declines will continue.

We estimate that the annual volume declines due to the price increase using the full pricing authority granted by the PRC will be about 2.6 billion pieces per year, or 2.3 percent. Even though volumes are expected to decline, revenues are expected to increase on average by about \$1.7 billion each year, or 4.2 percent. It is important to note that, historically, market dominant volumes experience some decline when rates increase; however, the overall revenue increase more than offsets any losses from the drop in volume. If we delayed the price increase implementation by 5 months, from August to January, as you suggest, the decline in volume is expected to be about 880 million fewer pieces in the first year and about 830 million fewer pieces in subsequent years, but we will earn \$750 million less in revenue in the first year and about \$540 million less in each subsequent year.

As requested, the impacts of the proposed price increase on mail use and volume for one year, three years, and five years are provided in the table below.

	August 2021		January 2022		Difference	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
Total 1 Year	(1,943)	\$2,084	(1,060)	\$1,331	(883)	\$753
3 Years	(6,262)	\$5,168	(5,431)	\$4,620	(831)	\$548
5 Years	(10,405)	\$8,162	(9,574)	\$7,614	(831)	\$548

Lastly, generating additional revenue through price increases is only one component of the Postal Service's "Delivering for America" plan to provide excellent service and attain long-term financial solvency. The plan also depends on Congress's passage of a bill to reform its benefits obligations, and we thank you for your work on the legislation referenced in your letter. The "Delivering for America" plan also comprises an array of initiatives that drive revenue and growth, reduce costs, and invest in much-needed capital improvements. Moreover, the Postal Service will be able to achieve improvements in reliability, cost effectiveness, and on-time delivery. Equally important, we will also increase our relevancy to the public through innovations to our products and services that better reflect evolving consumer behavior.

If I can be of assistance in other postal matters, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter R. Pastre". The signature is written in a cursive, flowing style with some loops and flourishes.

Peter R. Pastre