UPDATE

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Exigency Price *Decrease* Could Lead to Trouble

The Postal Service announced last Thursday that it will be required on April 10, for the first time in nearly 100 years, to *lower* its prices on certain mail products, potentially leading to more financial and operations disruptions. The price decrease will force the Postal Service to forego nearly $2 billion in annual revenue, adding to its problems.

Delegates to the upcoming NAPS legislative conference in Washington next week will use the opportunity to educate Congressional offices about how this irrational development has come about -- and the need for Congressional action to fix it.

Unless Congress intervenes, the Postal Service will no longer be able to collect the temporary 4.3 percent rate surcharge. The Postal Service will be required to return prices to levels that existed before the surcharge began, resetting postage prices on letters and commercial mail, including the Forever Stamp, which will drop to 47 cents.

Another Sign of Washington Gridlock

The upcoming developments sound like an April Fool's Day joke. It's one more sign of Washington gridlock and the paralysis that prevents a responsible postal reform measure from moving in Congress.

The surcharge will evaporate because the Postal Service will have collected $4.6 billion in surcharge revenue by April 10, the amount the Postal Regulatory Commission authorized in 2013 to offset the revenue the Postal Service lost due to the Great Recession in 2008-2009, when mail volume dropped suddenly and dramatically. The PRC authorized the 4.3 percent surcharge as an emergency or “exigency” rate increase, a temporary measure to collect the $4.6 billion and keep the Postal Service afloat until economic conditions returned to normal and volume presumably rebounded.

But mail volume has not returned to its prior levels in large part because of electronic diversion. While the Postal Service has experienced rapid growth in package volume over the past few years, it has not been enough to make up for the continued declines in revenues from Market-Dominant products, especially First-Class mail. The Postal Service has been barred from raising rates because the 2006 postal law links rate increases to inflation, which has been small and accounted for a small part of the exigency increase.

These developments have prompted the Postal Service, as part of its postal reform legislative proposal, to ask Congress to make the exigent surcharge permanent, effectively “baking” the increase into the rate base. The Senate iPost bill (S. 2051), authored by Sen. Tom Carper (D-DE), would reach that result as well.

Congressional observers are pessimistic that enough time remains between now and April 10 for Congress to approve Carper’s bill or any other large postal bill containing exigency rate relief. At best, exigency relief might come through Congressional approval of a temporary, one-year extension of the exigency surcharge in a small, stand-alone bill. Alternatively, a temporary extension within an unrelated “must pass” bill in Congress might be another route, but the number of such bills in an election year is limited, and spending bills won't passed until September.

The situation is further complicated by the fact that exigency authority in the law will expire in 2017, along with current postal rate schedules, as dictated by the 2006 postal law. That law requires the Postal Regulatory Commission in 2017 to undertake a comprehensive review of the postage rate framework, which could include making the exigency surcharge permanent. The commercial mailing community, which tends to disfavor rate increases, is split over making the exigency permanent now, or addressing the issue anew in 2017, complicating the picture further.

These developments create a cloud of uncertainty over how the Postal Service will respond in the coming months to the anticipated, significant loss of revenue.

The Potential for More Plant Closures

Clearly, the upcoming loss of revenue will renew significant cost pressures on the Postal Service. That could push plant consolidations and service-reduction measures, like curbside delivery, back into the picture. Postmaster General Megan Brennan could pick up where she left off in the spring of 2015, when she suspended Phase II of the Network Rationalization initiative, soon after assuming office.

Suspending Phase II gave Brennan time to fix faulty service in some parts of the country due to problems, along with bad weather, associated with service standard reductions, changes to the operating window and expansions in the transportation network triggered by the consolidations. Since that time, USPS service measurements around the country have improved, but have yet to return to earlier levels before the Phase I closures in January 2014 began. This is especially true for rural areas, where 3-5 day delivery has suffered the most. And new questions have arisen more recently about the true size of net savings associated with the Phase II plant closures, were they to pick up again.

The bottom line is that, unless Congress or the courts intervene, postal management will face rising pressure over the coming weeks and months, to offset significant revenue losses due to the expiration of the exigency. If further plant consolidations result, they could place renewed strains on service quality. Further erosions in service quality could deteriorate customer confidence in the Postal Service brand, a deadly toll. The preferred course involves persuading Congress to do the right thing and extending the exigency albeit temporarily, an especially difficult task in an election year.

Delegates to the upcoming NAPS legislative conference in Washington next week will use the opportunity to educate Congressional offices about the exigency and the need for Congressional action that fixes the situation.

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