Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives

AUDIT REPORT

Report Number 24-038-R24 | June 27, 2024

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Highlights

Background

To manage its aging fleet while supporting financial and environmental sustainability strategies from its 10-year Delivering for America plan, the Postal Service is investing $9.6 billion to electrify its delivery vehicles and install related charging infrastructure at hundreds of facilities. As $3 billion of this investment stems from congressional funds, it is essential for the Postal Service to capture cost savings as it executes its strategies to further strengthen the financial sustainability of this critical public service. Accordingly, the Postal Service has opportunities to leverage a wide range of financial incentives (from government agencies, utility companies, and carbon markets) that encourage the transition to electric vehicles.

What We Did

Our objective was to determine if the Postal Service is participating in incentive programs related to its electric vehicles and requisite charging infrastructure. If not, identify opportunities for participation and associated cost savings. We engaged a contractor to identify incentive programs and carbon markets that the Postal Service is eligible for at 29 facilities slated for electric vehicle deployment in fiscal year (FY) 2024.

What We Found

We found that the Postal Service did not participate in incentive programs related to electric vehicles and requisite charging infrastructure. We identified 13 available incentive programs the Postal Service may be eligible to participate in at 14 of 29 facilities. Further, we identified seven incentive programs across seven facilities that were available during our review, but eligibility has since ended. Postal Service management stated it did not continue to pursue incentive programs, at the direction of leadership, but rather prioritized the implementation of Sorting & Delivery Centers to drive revenue. If the Postal Service were to participate in these incentive programs and carbon markets, it could potentially gain an estimated $5.48 million in funds put to better use. For the seven programs it is no longer eligible to participate in, it could have obtained $3.23 million in increased revenue. Further exploring the feasibility of participating in these programs may provide additional cost savings and revenue opportunities as the Postal Service executes its electric vehicle deployment plans to 800 facilities by the end of FY 2028.

Recommendations and Management's Comments

We made two recommendations to evaluate the incentive programs identified for existing planning processes and for incorporating continuous monitoring for the future. Postal Service management agreed with the finding and one recommendation and disagreed with the other one. Management's comments and our evaluation are at the end of the finding and recommendations. The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendation 1 and corrective actions should resolve the issues identified in the report. See Appendix D for management's comments in their entirety.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 27, 2024

MEMORANDUM FOR: RONNIE J. JARRIEL
SENIOR VICE PRESIDENT, INFRASTRUCTURE AND OPERATIONS SUPPORT

FROM: Amanda Stafford
Deputy Assistant Inspector General
for Retail, Marketing and Supply Management

SUBJECT: Audit Report – Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives (Report Number 24-038-R24)

This report presents the results of our audit of Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Shirian Holland, Director, Infrastructure and Supply Management, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives (Project Number 24-038). Our objective was to determine if the Postal Service is participating in incentive programs related to its electric vehicles and requisite charging infrastructure. If not, we would identify opportunities for participation and associated cost savings. See Appendix A for additional information about this audit.

Background

To manage its aging fleet[1] while supporting financial and environmental sustainability strategies from its Delivering for America 10-year plan,[2] the Postal Service is investing $9.6 billion to electrify its delivery vehicles and install related charging infrastructure at hundreds of Postal Service facilities. As $3 billion of this investment stems from congressional funds,[3] it is essential for the Postal Service to capture cost savings as it executes its 10-year strategy and further strengthens the financial sustainability of this critical public service.

As the electric vehicle marketplace evolves and the current administration seeks to expand electric vehicle adoption and infrastructure,[4] a wide range of financial incentives are available to encourage the transition to electric vehicles. Postal Service participation in these incentive programs could offset vehicle acquisition and charging infrastructure costs. Incentive programs can be administered by a:

- **Federal Agency** offering tax credits or a reduction in the tax owed. Eligible taxpayers can claim tax credits on their tax returns to reduce their tax liability. Tax credits can relate to various activities, such as energy-efficient home improvements, electric vehicle purchases, or investments in clean vehicle refueling property. Since the Postal Service is a tax-exempt entity, it will not be able to benefit from any federal tax credits related to electric vehicles and charging infrastructure.
- **State Agency** that provides tax credits or a grant — a sum of money provided to support a specific project or initiative. Grants are often awarded based on specific criteria, such as community development or activities to address community needs (e.g., infrastructure, economic development projects, public services, etc.). They may also be competitive, meaning applicants are scored based on their ability to meet the program's criteria, and selected based on the highest score. Often, applicants must apply before the project begins. While the Postal Service is not eligible to claim state tax credits, it may be eligible to obtain state grants to support its electric vehicle and charging infrastructure initiatives.
- **Utility Company** with incentive programs that fund "make-ready" costs. These costs include the essential work and electrical infrastructure upgrades to prepare a site for electric vehicle charging, excluding the expenses associated with the charging hardware itself. Rebates — returns on a payment or payments for a qualifying purchase — are another type of program that some utility companies offer. Rebates are typically given as a discount or cash back after a purchase has been made, aimed at encouraging consumers to buy specific products by offering a partial refund. The Postal Service may be eligible to secure electric vehicle and charging infrastructure incentive programs offered by utility companies.
- **Carbon Market** in which electrified fleets can engage in revenue generating opportunities by participating in low carbon fuel standard programs (that is, carbon markets). These types

1 The Postal Service's delivery fleet of Long-Life Vehicles (LLVs) have a lifespan of 24 years. As of the end of fiscal year (FY) 2023, the Postal Service had approximately 130,000 right-hand-drive LLVs. All LLVs have exceeded their projected 24-year life span and account for over 52 percent of the Postal Service's vehicle fleet.
2 The Postal Service's 10-year plan is officially named Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence. The plan was developed to transform financial performance and customer service through significant investments in people, technology, and infrastructure.
3 $1.29 billion was designated for the purchase of zero-emission vehicles and $1.71 billion for the purchase, design, and installation of the requisite infrastructure to support zero-emission delivery vehicles. Inflation Reduction Act of 2022, Pub. L. No. 117-169 (August 16, 2022).
4 Executive Order 14057, "Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability," signed on December 8, 2021, requires the federal government to transition to 100 percent zero-emission vehicle acquisitions by 2035.

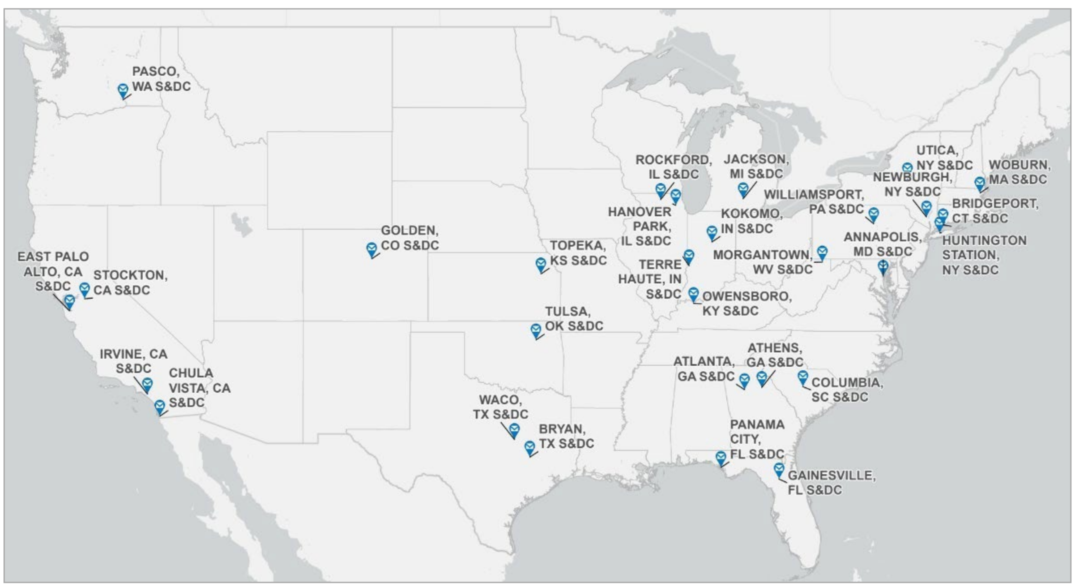
of programs incentivize the use of alternative transportation fuels like electricity to reduce greenhouse gas emissions, enabling fleets to earn revenue through the generation and sale of carbon credits.[5] While some carbon markets are regulated by state governments, a federal agency, such as the Postal Service, can be regulated by a state government if they own and operate related charging equipment for electric vehicles.

In late spring of 2022, the Postal Service's Next Generation Delivery Vehicle program management office, in coordination with Facilities and Fleet Acquisition,[6] engaged an energy management firm to evaluate a broad range of potential incentive programs nationwide and at specific facilities at the federal, state, and local; utility; and vehicle levels. The assessment covered the application process, eligibility for Postal Service participation, potential incentive values, complexity of the application process and the likelihood of success, and recommendations for applications to pursue. At the conclusion of the assessment, the Postal Service determined there were many incentives available; however, eligibility requirements of the programs impeded its ability to participate. For example, one utility provider offered to design, fund, and manage the construction of all electric vehicle infrastructure elements (even on Postal Service-owned properties). However, they would own all equipment and have easement rights,[7] among other challenges that the Postal Service faced.[8] After four months of trying to work through program parameters, the Postal Service decided not to pursue the incentive program any further.

Independent of the Postal Service's assessment, the U.S. Postal Service Office of Inspector General (OIG) engaged a contractor to identify incentive programs, or carbon markets that the Postal Service is eligible for at 29 facilities planned for electric vehicle deployment in FY 2024 (see Figure 1).[9]

Figure 1. Electric Vehicle Deployment Facilities in FY 2024

Source: OIG analysis based on data provided by the Next Generation Delivery Vehicle program management office.



5 Carbon credits represent a unit of measurement for reducing greenhouse gas emissions. They are typically expressed in metric tons of carbon dioxide equivalent (CO_2e) and each reflect a unit of CO_2e that a business is allowed to emit. Carbon credits are commonly used in the context of emissions trading in which companies are given a fixed number of credits depending on their emissions. They can later purchase more credits or sell their extra.

6 The Next Generation Delivery Vehicle program management office executes the strategies associated with electric vehicles and charging infrastructure and is primarily responsible for engaging in incentive programs. Headquarters Facilities and Fleet Acquisition supports the Next Generation Delivery Vehicle program management office by executing the contract for the energy management firm to conduct the assessment. In addition, they would manage any contracts tied to facility or utility incentives, in the event of Postal Service participation.

7 An easement is a legal agreement between a landowner and another entity, such as the State or a public utility, that establishes a material interest in a property. For example, a public utility typically owns an easement over private property that allows the utility to construct and maintain electrical transmission lines across that property.

8 The construction would be completed on the utility company's schedule (with the Postal Service's input); the company had the ability to modify Postal Service construction plans; and electric vehicles had to be used within 60 days of charger installation. The Postal Service's General Counsel raised several issues with the company's terms and conditions, such as the agreement being governed by state rather than federal law, the company having unrestricted access to applicable facilities, and the Postal Service being required to grant the company an easement.

9 As of January 5, 2024, the Postal Service had activated 29 Sorting & Delivery Centers (S&DCs) — centers that will consolidate multiple delivery units and package sortation operations into one facility — that are planned to use electric vehicles and requisite charging infrastructure.

Finding: No Participation in Incentive Programs

We found that the Postal Service did not participate in incentive programs related to electric vehicles and requisite charging infrastructure. We identified opportunities for participation to further enhance its electric vehicle deployment planning process, which could drive cost savings and revenue generation.

> "We found that the Postal Service did not participate in incentive programs related to electric vehicles and requisite charging infrastructure."

Available Incentive Programs

We reviewed electric vehicle and charging infrastructure deployment plans through FY 2024 across 29 activated facilities nationwide. Based on our analysis of a variety of complex considerations, such as easements, special provisions, and application deadlines, we identified available incentive programs that the Postal Service may be eligible to participate in at 14 of 29 facilities (48 percent). Specifically, there were a total of 13 incentive programs across the 14 facilities,[10] including:

- Ten utility incentive programs with a total estimated savings of $2,809,000. For example, the Newburgh, NY, S&DC may be eligible for a $392,000 rebate through its local utility's make-ready program. This program allows for funding up to 50 percent of make-ready costs. The program is accepting applications until 2028, until program equipment enrollment goals are met, or until the available incentive funding has been allocated, whichever comes first. As of April 2024, significant funds were remaining. In another example, the Woburn, MA, S&DC may be eligible to receive $54,000 in funding through its local utility's charging equipment rebate program for chargers and make-ready costs. The program is accepting applications until December 2024, but funding is expected to continue until 2030.
- One state incentive program with a total estimated savings of $2,206,000. Specifically, the Chula Vista, CA, S&DC; East Palo Alto, CA, S&DC; and Stockton, CA, S&DC may be entitled to receive grants totaling $2,206,000 for eligible equipment costs to accelerate the deployment of fueling infrastructure for zero-emission trucks, buses, and equipment. Sites that meet the program's equity criteria[11] will be funded up to 75 percent of equipment costs for a maximum of $750,000 per project. As of April 2024, the program was still open to receive applications.
- Two carbon markets with a total estimated revenue value of $469,000 for five years. Specifically, we identified opportunities for the Postal Service to engage in the Low Carbon Fuel Standard program in California and the Clean Fuel Standard program in Washington, as sources of revenue, once it begins using electric vehicles in those states. In these programs, the owner of electric vehicle charging equipment is eligible to receive carbon credits based on the amount of electricity those chargers supply to electric vehicles.[12] In both states, the charging station owner must be able to meter the electricity dispensed into a vehicle for reporting purposes.

Incentive Programs No Longer Available

Additionally, we identified seven incentive programs across seven facilities that were available during our review, but the Postal Service's eligibility has since ended. This includes:

- Four incentive programs, with a total estimated savings of $2,326,000, which required the Postal Service to gain funding approval prior to the project start date or purchase of equipment

10 See Appendix B for complete details on incentives and potential savings available across the 29 facilities we reviewed.
11 The three facilities qualify under the program parameter, "The address of the infrastructure to be built using program funds is located within a Disadvantaged Community or Low-income Community census tract."
12 For both the California Low Carbon Fuel Standard and the Washington Clean Fuel Standard, credits can be generated by using low carbon fuels, regardless of whether an entity reduces its overall carbon emissions. For example, an entity would still generate credits for using electric vehicles (assuming they own the charging infrastructure) even if the entity's overall carbon emissions increased because they deployed more internal combustion engine vehicles.

to be eligible for the rebate. For example, the Kokomo, IN, S&DC and Terre Haute, IN, S&DC were each potentially eligible for a charging equipment rebate of $10,000. However, as of March 26, 2024, the Postal Service stated that the electric vehicle infrastructure had been fully completed at these two facilities. If the Postal Service had received program approval prior to the project start date, the program would have funded 80 percent of customer out of pocket costs, up to $500 per charger and capped at 20 rebates per location.

- Two incentive programs, with a total estimated savings of $883,000, are now depleted. For example, the Golden, CO, S&DC was potentially eligible to receive no- to low-cost charging infrastructure from its local utility company. The program is currently closed and seeking additional funds.
- One incentive program, with a total estimated savings of $25,000, in which the application period to apply for the program has expired. Specifically, the Jackson, MI, S&DC was potentially eligible to receive a rebate of $2,500 per charger, up to ten chargers; however, the program was only accepting applications until May 2024.

Although there are no specific laws that require the Postal Service to participate in incentive programs, the Postal Accountability and Enhancement Act[13] states that the Postal Service should implement commercial best practices in its purchasing policies to achieve greater efficiency and cost savings through private-sector partnerships.[14]

During our research of best practices with domestic large shippers, we found an organization that capitalized on cost-savings opportunities. Specifically, it committed resources to ongoing research of electric vehicle and charging infrastructure incentives because it believed there were many programs available in the United States.

> “Postal Service should implement commercial best practices in its purchasing policies to achieve greater efficiency and cost savings through private-sector partnerships.”

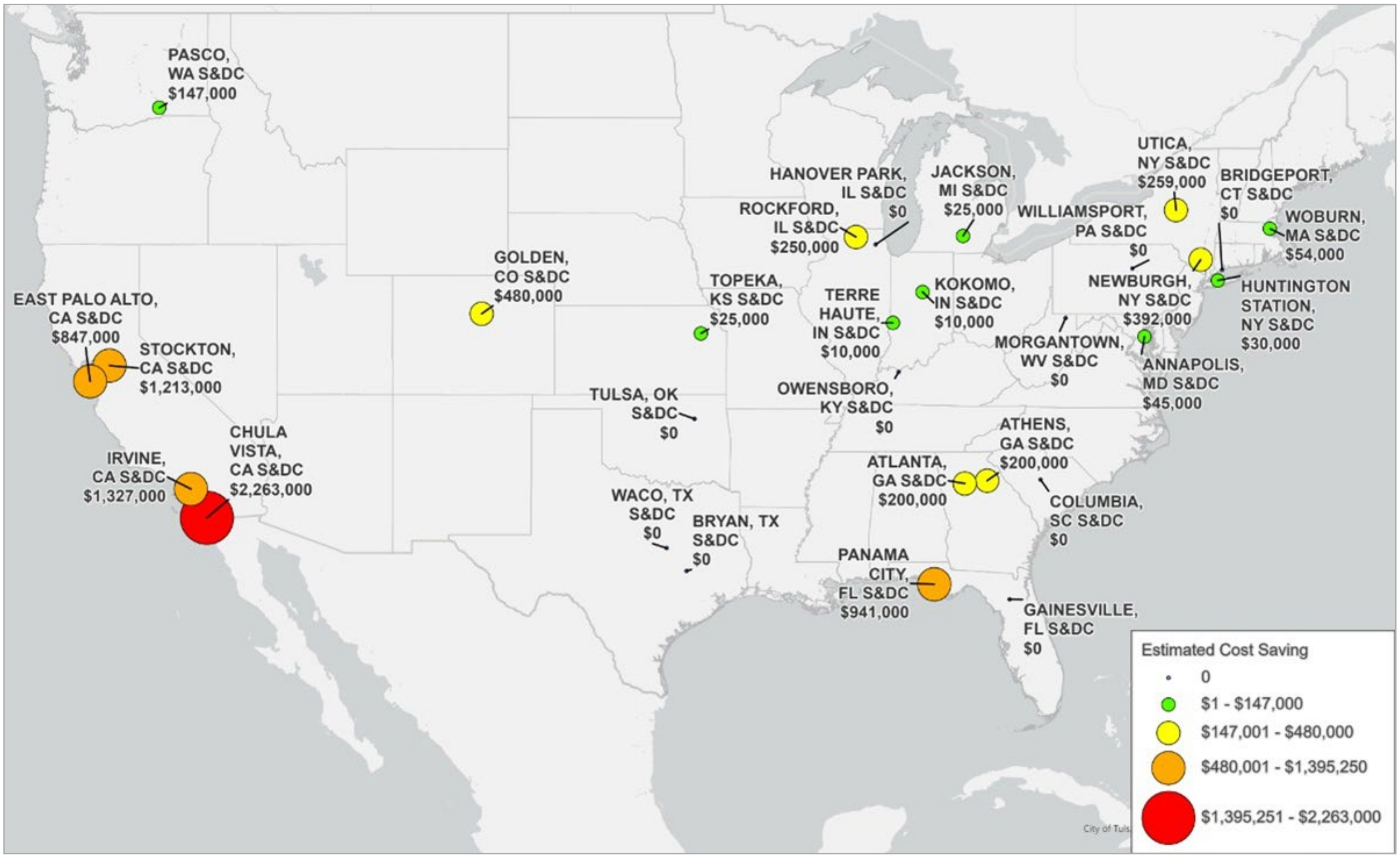
In addition, its supplier for charging stations and design work notified them about infrastructure incentives and state incentive programs. As a result, the company was able to participate in electric vehicle and charging infrastructure incentive programs, including private-sector partnerships, and stated it saved approximately $3.7 million from calendar year 2020 through March 2024.

Postal Service management stated that at the time it did not continue to pursue incentive programs at the direction of leadership. Instead, leadership prioritized executing other strategies of its 10-year plan, such as the implementation of S&DCs, to prepare the network to drive revenue. However, management stated it may elect to assess and pursue incentives as the electric vehicle program evolves.

As a result, if the Postal Service were to participate in the 13 available incentive programs and carbon markets, it could potentially save $5.02 million and generate revenues of $469,000 — totaling an estimated $5.48 million[15] in funds put to better use[16] across the 29 facilities. In addition, if the Postal Service had leveraged the seven programs it is no longer eligible to participate in, it could have obtained $3.23 million in increased revenue.[17] See Figure 2 for the specific estimated revenues associated with the 29 facilities we reviewed.

13 The Postal Accountability and Enhancement Act contains a “Sense of Congress” provision or resolution, which is used to formally express legislative opinions about subjects of national interest. Even if a “sense of” provision is incorporated into a bill that becomes law, such provisions merely express the opinion of Congress and have no mandatory effect on agency action absent other implementing language.
14 Postal Accountability and Enhancement Act at § 1004, Pub. L. No. 109-435 (Dec. 20, 2006).
15 Dollar amounts may not add due to rounding.
16 Monetary impact in which funds could be used more efficiently by implementing recommended actions.
17 Monetary impact in which Postal Service gets increased revenue from existing functions or revenue generated from new sources.

Figure 2. 29 S&DCs and the Estimated Revenues From Incentive Programs and Carbon Markets



Source: OIG analysis based on data provided by the Next Generation Delivery Vehicle program management office and Headquarters Facilities and Fleet Acquisition.

Moreover, continuously monitoring and performing a similar assessment for future sites may yield new cost savings and revenue generation opportunities as the Postal Service executes its deployment plans. To assist in these efforts, the Postal Service may choose to re-engage its own contractors or identify others to help conduct this work, similar to the assessment performed in 2022. This will allow the Postal Service to simultaneously prioritize implementing the S&DCs while pursuing cost-saving opportunities as it electrifies its delivery fleet.

Recommendation #1

We recommend the **Senior Vice President, Infrastructure and Operations Support**, prioritize and evaluate the incentive programs identified during our audit into existing planning processes.

Recommendation #2

We recommend the **Senior Vice President, Infrastructure and Operations Support**, evaluate the feasibility of continuously monitoring incentive program participation at facilities with future electric vehicle and charging infrastructure deployments, to include conducting cost-benefit analysis and enlisting the possible use of contractors to support this action.

Postal Service Response

Management agreed with the finding and recommendation 1 but disagreed with recommendation 2 and the monetary impact. Regarding recommendation 1, management stated that it has already completed this evaluation, and the target implementation date was June 20, 2024.

Regarding recommendation 2, management stated that the recommendation was made without assessing the potential administrative cost to establish and support this level of activity to determine if there is a potential net positive contribution. In addition, its prior contractor engagement cost on this very scope far exceeds the range of potential incentive values identified in the report.

Regarding monetary impact, management stated that they evaluated the published eligibility requirements for programs identified in the audit report and determined that the Postal Service is not eligible for at least 83 percent of the incentive programs, which translates to over 98 percent of the associated monetary value. Instead, the Postal Service is possibly eligible for three of the 24 programs identified, and a maximum of $145,000 of the total value identified.

OIG Evaluation

The OIG considers management's comments responsive to recommendation 1 in the report, and the corrective actions should resolve the issues identified. However, the OIG requests written confirmation when corrective actions are completed. As a result, the recommendation will be closed once the OIG validates that the actions taken have corrected the deficiencies identified during the audit.

Regarding recommendation 2, we are recommending that management conduct a cost-benefit analysis of administrative costs to determine if continuously monitoring incentive programs is feasible. We view management's disagreement with recommendation 2 as unresolved and will work with management through the formal audit resolution process.

Regarding monetary impact, as noted in our report, we agree that there may be constraints associated with some of the eligibility requirements and terms and conditions, such as working with approved contractors or granting easements. However, the work we conducted with our contractor — to include discussions with industry stakeholders — supports the notion that management may be able to negotiate eligibility and terms with program administrators. Directly engaging with program administrators, instead of solely evaluating published eligibility requirements, may be effective and allow management to validate program requirements and negotiate further. The OIG used this approach during our work, and we were able to confirm that the Postal Service was eligible for a program that management thought they were not able to participate in.

Looking Forward

As the Postal Service brings its delivery fleet electrification strategy to fruition, it is essential to maximize cost savings and revenue generation opportunities that could be applied to electric vehicle and charging infrastructure acquisitions. As discussed in this report, there are promising opportunities to leverage available incentive programs. However, the incentive funding landscape is constantly evolving and maturing, with new incentive programs becoming available, such as programs that offer demand charge rebates[18] and electric rate plans.[19]

In addition, while we identified some potential limitations associated with incentive programs,[20] continued evaluation could bear fruit as the Postal Service may be able to negotiate eligibility and terms with program administrators to take advantage of these funding opportunities. For example, Postal Service management stated that they were not eligible to participate in the Washington Clean Fuel Standard after reviewing the program's requirements. However, we directly communicated with a representative from the carbon market who stated that federal fleets, such as Postal Service vehicles, are eligible to register and participate. In another example, one large domestic shipper stated it was successful in negotiating the terms and conditions with state officials on a particular incentive program, and as a result, received funding to support its fleet.

"Incorporating such practices may be significant as the Postal Service estimates deploying electric vehicles to 800 facilities by the end of FY 2028."

Thus, engaging with program administrators as soon as possible – even prior to site design completion – could allow the Postal Service to understand program requirements and eligibility, negotiate limitations, and apply for funding while these opportunities remain available. There are administrative hours and costs to support this level of opportunity, so working with a contractor could be prudent to navigate this complex and often time-sensitive endeavor.

Now that the Postal Service has started confirming locations for electric vehicle deployment, reconsidering its participation and eligibility in incentive programs outlined in the report and continuously monitoring for new funding prospects — regardless of whether funding is currently available — could yield additional cost savings and revenues. Incorporating such practices may be significant as the Postal Service estimates deploying electric vehicles to 800 facilities by the end of FY 2028.

18 Demand charge rebates provide eligible commercial electric vehicle charging customers with a rebate on their billed demand charges. Demand charges are billed on a per kilowatt basis and are based on the peak demand usage in the billing period.
19 Electric rate plans are offered by electric utilities to customers performing electric vehicle charging. Generally, these rate plans offer a time-of-use price that discounts electric pricing during off-peak times, such as overnight through the early morning, for separately metered electric vehicle charging.
20 We identified additional considerations related to using approved contractors, application timelines, easements, and carbon market credit prices that may impact the Postal Service's ability to engage in some incentive programs. See Appendix C for additional information.

Appendices

Appendix A: Additional Information

Scope and Methodology

Our scope included incentive programs available to the Postal Service for electric vehicles and requisite charging infrastructure. To perform this audit, we:

- Reviewed applicable laws, regulations, and Postal Service policies and procedures related to electric vehicle and charging infrastructure incentive programs. In addition, we determined if there were any criteria related to congressional funding and the duty to partake in cost-saving measures.
- Interviewed the Next Generation Delivery Vehicle program management office, Headquarters Facilities and Fleet Acquisition, and Headquarters Environmental Affairs and Corporate Sustainability to gain an understanding of roles and responsibilities, internal controls, and oversight associated with the engagement strategy of incentive programs.
- Requested and obtained documents and data from Postal Service Headquarters, related to the following:
  - The planned facilities for electric vehicle deployment through the end of FY 2024 and whether the buildings are Postal Service-owned or leased.
  - The number, power level, and make/model of charging stations being deployed to select facilities nationwide.
  - The respective utility providers at each location.
  - The incentive programs that the Postal Service was engaging with at each site.
  - Any information or estimates the Postal Service already had on expected make-ready cost estimates/quotes for charging equipment installation.
  - Vehicle and charging cost estimates.
- Interviewed industry stakeholders for best practices as it relates to electric vehicle and charging infrastructure incentive programs.
- Engaged a contractor to identify incentive programs, or carbon markets that the Postal Service is eligible for at 29 facilities planned for electric vehicle deployment in FY 2024.

We conducted this performance audit from November 2023 through June 2024 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on May 29, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the Postal Service's incentive program internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following three components were significant to our audit objective:

- Control Environment
- Control Activities
- Information and Communication

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to Control Activities that were significant within the context of our objective. Our recommendation, if implemented, should correct the weaknesses we identified.

We did not assess the reliability of any computer-generated data for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: 29 S&DCs and Estimated Incentives Funding Availability

Facility	Incentives Available as of May 2024	Incentive Administrator	Total Funding Available to the Postal Service
Chula Vista, CA, S&DC	Yes	State	$ 750,000
		Carbon Market	$ 97,000
Irvine, CA, S&DC	Yes	Carbon Market	$ 59,000
East Palo Alto, CA, S&DC	Yes	State	$ 750,000
		Carbon Market	$ 97,000
Stockton, CA, S&DC	Yes	Utilities†	$ 438,000
		State	$ 706,000
		Carbon Market	$ 69,000
Golden, CO, S&DC	No		
Bridgeport, CT, S&DC	No		
Gainesville, FL, S&DC	No		
Panama City, FL, S&DC	Yes	Utilities	$ 941,000
Athens, GA, S&DC	Yes	Utilities	$ 200,000
Atlanta, GA, S&DC	Yes	Utilities	$ 200,000
Barlett/Hanover Park, IL, S&DC	No		
Rockford, IL, S&DC	Yes	Utilities	$ 250,000
Kokomo, IN, S&DC	No		
Terre Haute, IN, S&DC	No		
Topeka, KS, S&DC	No		
Owensboro, KY, S&DC	No		
Woburn, MA, S&DC	Yes	Utilities	$ 54,000
Annapolis, MD, S&DC	Yes	Utilities	$ 45,000
Jackson, MI, S&DC	No		
Huntington Station, NY, S&DC	Yes	Utilities	$ 30,000
Newburgh, NY, S&DC	Yes	Utilities‡	$ 392,000
Utica, NY, S&DC	Yes	Utilities‡	$ 259,000
Tulsa, OK, S&DC	No		
Williamsport, PA, S&DC	No		
Columbia, SC, S&DC	No		
Bryan, TX, S&DC	No		
Waco, TX, S&DC	No		
Pasco, WA, S&DC	Yes	Carbon Market	$ 147,000
Morgantown, WV, S&DC	No		
TOTAL			**$ 5,484,000**

Source: OIG analysis based on data provided by the Next Generation Delivery Vehicle program management office and Headquarters Facilities and Fleet Acquisition.

† An easement may be required for the utility company to access infrastructure.

‡ Applicants must use an approved contractor to install electric vehicle charging equipment.

Appendix C: Additional Incentive Program Considerations

While our analysis addressed many of the legal complexities or conditions associated with the incentive programs,[21] there are other requirements that warrant further consideration by the Postal Service. Specifically,

- Some programs require the Postal Service to use an approved contractor to install their charging infrastructure. However, the Postal Service plans to leverage its existing, facilities-supporting contractors (commonly known as Program Management Services Contracts) to install its charging infrastructure. Thus, the Postal Service would need to evaluate if they could use contractors approved by the program owner or if its contractors would be interested in becoming an approved contractor.
- Some programs require the Postal Service to apply within a specific timeframe or require pre-approval before it begins procurement or site planning processes. Even if the Postal Service was eligible for a program because the Postal Service's electric vehicle deployment efforts remain fluid, it may not have sufficient time to apply for an incentive program.
- Some programs may or do require an easement, or other such agreement, granting 24/7 access to on-site electrical infrastructure. The Postal Service indicated that it plans to store its charging infrastructure behind a secured gate to prevent unauthorized access. Thus, granting easements may be operationally infeasible or allowing external personnel unfettered access to Postal Service facilities may pose a security risk.
- Carbon market credit prices can fluctuate and can make projected revenues difficult to predict. For instance, the March 2024 Low Carbon Fuel Standard credit price in California was approximately $65 to $70 per ton. However, as recently as 2019, the credit prices traded at an average price above $185/ton.

21 Our evaluation identified some incentive programs that Postal Service management has stated they were not in the best interest of the Postal Service to participate in. For example, some programs required the participant to make their chargers available to the public. However, Postal Service management stated that these types of programs were not feasible for the Postal Service to participate in since its charging infrastructure will be in a secured lot for authorized personnel only. In these instances, the OIG did not include these types of programs in the report.

Appendix D: Management's Comments

UNITED STATES POSTAL SERVICE

June 20, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives (24-038)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report titled: Fleet Modernization – Electric Vehicle and Charging Infrastructure Incentives.

Findings: The Postal Service concurs with Finding #1: *No Participation in Incentive Programs*. The Postal Service is not *currently* participating in incentive programs – as was articulated in the entrance conference for this audit. However, the assessment in the audit report is significantly flawed in two areas: Incentive Program Eligibility and Resolution of Incentive Program Terms & Conditions (T&Cs).

Program Eligibility: The audit report identified 24 incentive opportunities that it states should have been pursued by the Postal Service. Upon evaluation of each the incentives as described in pages 4-6 of the audit report, the report did not adequately assess fundamental eligibility of the Postal Service to participate in these incentives. The audit team stated that the Postal Service could *overcome* published eligibility constraints by individually negotiating eligibility requirements with each individual incentive offeror.

For example, several identified incentives have *published* eligibility requirements limited to: SMB/minority-women owned businesses; transit agencies; schools; low-income communities; tribal entities; non-profits (with 501c tax exemption status). The Postal Service does not fall into ANY of these categories (7 recommended). Other incentives in the list required public-facing charging as an eligibility requirement, which the Postal Service has expressly stated it will not provide due to security and safety concerns associated with providing the public access to charging stations located behind secure fence lines (2 recommended). Still other incentives require use of specific contractors or specific charging stations, or even preclude consideration of applicants who have already purchased EVSE – even though the OIG has full awareness of the Postal Service's approach for contracting for specific facets of EV infrastructure development (7 recommended). One

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recommended incentive is for producers and suppliers of high-carbon-intensity fuels, for which the Postal Service is not remotely eligible (1 recommended).

Beyond fundamental eligibility, the audit report also suggests that the Postal Service sell the credits associated with the net reduction in carbon emissions from our fleet implementation (4 recommended). The Postal Service has communicated broadly in recent months about our commitment to sustainability by announcing our environmental strategies associated with our Delivering for America plan, including a targeted reduction in Scope 1 and 2 emissions of 40% by 2030. The delivery fleet modernization strategies are a critical piece of achieving these important improvements.

Yet despite these clear organizational strategies and goals, the audit report recommends that the Postal Service pursue selling associated carbon credits in carbon markets with uncertain returns, enabling *others* to continue emitting greenhouse gasses and "absorb" the positive impact the Postal Service would otherwise contribute to the environment in communities across the nation. The four recommended incentives in the audit report associated with carbon credits would elicit uncertain returns and eliminate the potential of the Postal Service to contribute to its published Sustainability targets for years to come. These issues were all communicated to the audit team, but continue to be reflected in the recommendations in final report.

The Postal Service previously spent months studying the incentive space ,and used this experience to evaluate the published eligibility requirements for each opportunity that the audit report identifies, and **determined that the Postal Service is not eligible for at least 83% of the incentives identified**, which **translates to over 98% of the associated monetary value**. The Postal Service is, at best, *possibly* eligible for 3 of the 24 programs identified, and a *maximum* of $145,000 of the total value identified (pending additional analysis of the Terms and Conditions in the following sub-section and a validation of how the incentive value was actually calculated given the tiered amounts available and the fact the Postal Service would be in the lowest tiers without public charging offerings). The audit report total value was recently *increased* to over $8.71 Million despite a discussion of these restrictions and in spite of additional documentation and analysis the Postal Service provided reflecting these restrictions. The Postal Service requested to review the basis for the calculations supporting the identified incentives, but was told that this data would be provided *after* the final report is published – so we cannot assess our agreement or disagreement with the values represented – only whether the Postal Service meets basic eligibility criteria, which in most cases, did not.

2

Resolution of T&Cs: Perhaps most significantly however, the Postal Service also shared that the most rigorous challenge for the Postal Service to overcome with incentive participation is the contractual Terms and Conditions (T&Cs) for each individual incentive offering. And while the report acknowledges these restrictions in footnote 10 on page 3 of the report, what it does *not* sufficiently portray is that **these legal requirements for participation could not be overcome** after five months of active work with one of the utility providers included in the OIG's recommendation set. The report states "*After four months of trying to work through program parameters, the Postal Service* ***decided not to pursue*** *the incentive program any further.*" This is not accurate, nor does it reflect what the Postal Service stated.

After five months of active work with both legal and program teams, the effort to resolve the T&Cs reached a complete impasse. The Utility was only willing to negotiate on *two* of the multitude of published T&Cs, and the teams could not reach resolution on even just two conditions to overcome the utility's published incentive terms. Resolving differences in T&Cs is a must, in order to align and harmonize published requirements from incentive offerors at the state or local level with what the Postal Service, as a federal entity, could legally grant. The OIG's report makes this sound like a minor, negotiable nuisance. It simply could not be overcome, and is a hard constraint to resolve in order for the Postal Service to be able to participate in ANY incentive offering.

To further this point, the Postal Service did a broadened assessment of the actual T&Cs for several of the incentive opportunities included in the audit report. Upon review, the Law Department noted several problematic or otherwise onerous terms in each of the T&Cs, similar to those previously provided to the OIG from the work with Georgia Power. In total, more than 30 T&Cs issues were flagged that are nearly insurmountable to resolve across multiple incentive offerors. For example, the various T&Cs would allow the utility/incentive offeror to: have unrestricted access USPS sites at any time without notice; unilaterally control site designs/construction/installation processes at USPS sites without liability; change requirements or remove equipment at any time; not commit to timelines for installation or implementation; access, use or sell all USPS EVSE operational data; obligate the Postal Service to provide insurance coverage – yet we are self-insured; cancel incentive programs at any time with no notice. The terms would reverse indemnity requirements; be governed by state, rather than federal law; negatively impact the Postal Service's borrowing limits or even negatively impact the legislatively-provided Inflation Reduction Act funds the Postal Service has already received.

The Postal Service supplied the OIG with the prior, similar analysis of the T&Cs and a summary of these restrictions and their impact, but the audit neither included an assessment of the T&Cs in the OIG's list of available incentives, nor does it recognize its impact as a hard limit on the Postal Service' participation in such opportunities.

3

In the simplest terms, the audit report identifies that there are incentives available in the markets that align with our first 29 SDC sites; however, the assessment of the Postal Service' legitimate **eligibility** to participate is insufficient, and the complete lack of the more important and compelling restrictions as evidenced by the lack of evaluation of incentive program **Terms and Conditions** portrays the complete absence of understanding and disregard for the legal restrictions within which the Postal Service *must* operate.

Monetary Impact: The Postal Service **disagrees** with the monetary impact. As noted above, the Postal Service evaluated both the published eligibility requirements for each individual incentive opportunity identified in the audit report, as well as an evaluation of the Terms & Conditions for several of the opportunities listed. Based on this evaluation, which was shared with the audit team, a *maximum* of $145,000 of the $8.71 million identified is actually accessible to the Postal Service through these identified incentives given the impact of the restrictions that were neither considered nor evaluated during the development of the list of incentive opportunities in the audit report.

The following are our comments to the two recommendations:

Recommendation 1: We recommend the **Senior Vice President, Infrastructure and Operations Support**, prioritize and evaluate the incentive programs identified during our audit into existing planning processes.

Management Response/Action Plan:
Management **agrees** with this recommendation to the extent that the Postal Service has already thoroughly completed this evaluation. The Postal Service can also report that our evaluation reveals that we are actually eligible for less than 2% of the incentives identified, and likely cannot overcome the Terms and Conditions associated with these incentives.

Target Implementation Date: 6/20/2024. Complete

Responsible Official: Senior Vice President, Infrastructure and Operations Support

Recommendation 2: We recommend the **Senior Vice President, Infrastructure and Operations Support**, evaluate the feasibility of continuously monitoring incentive program participation at facilities with future electric vehicle and charging infrastructure deployments, to include conducting cost-benefit analysis and enlisting the possible use of contractors to support this action.

Management Response/Action Plan:
Management **disagrees** with this recommendation.

4

As noted during discussions with the audit team, this recommendation is made without assessing the potential administrative cost to establish and support this level of activity to determine if there is a potential net positive contribution. This does not begin to consider the level of resources required to individually negotiate eligibility for each incentive, or more importantly, to negotiate the array of T&Cs that previously resulted in an impasse and are present in each set of T&Cs evaluated from the subset of incentives included in the report. The Postal Service disagrees with this recommendation, as its prior contractor engagement cost on this very scope far exceeds the range of potential incentive values identified in the report. Also, as discussed previously, the Postal Service may elect to pursue incentives at some point in the future, but not on the basis of this recommendation set or without parameters to adjust the T&Cs in a manner that the Postal Service can legally participate.

Target Implementation Date: N/A

Responsible Official: Senior Vice President, Infrastructure and Operations Support

for Ronnie Jarriel
Senior Vice President, Infrastructure and Operations Support

cc: Corporate Audit Response Management

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