

NPPC

National Postal Policy Council



NPPC Annual Report 2012 – 2013

From the Postal Service to the Postal Regulatory Commission and on to Capitol Hill, NPPC once again led or participated on a wide variety of important matters. But it remains the case that none is more important than the ongoing effort to improve the financial standing of USPS, avoid a shutdown, and preserve the system in a way that continues to be useful to NPPC members. Whether it is in opposing the recently-filed exigency increase proposal, or advocating for legislative change, NPPC is taking a strong proactive stance. In this report, we again follow a bulleted format for ease of review.

CAPITOL HILL

NPPC has had a sustained program to work with Congress on issues of importance to the postal system. This year, there has been an exceptionally heavy workload as USPS' financial instability continued, and we all started from scratch on legislation in a new Congress.

NPPC's continued heavy engagement on Capitol Hill has been to encourage Congress to provide relief to the financially embattled USPS. While USPS' finances have marginally improved since last year, the risk of a partial or complete shutdown of the system, according to USPS, remains. Any unexpected, even moderate, volume decline could mean operational impact, up to and including a shutdown, at any time in 2014. Success on relief for USPS from Congress is, if anything, even more urgently needed: on its current course, USPS has already defaulted not only on pension payments, but on three retiree health prefunding payments totaling \$16.5 billion.

- Continued to coordinate and lead the Coalition for a 21st Century Postal Service
 - i. Unites mailers and suppliers in pursuing goals of short- and long-term financial and structural relief on the Hill
 - ii. Major milestone: passage of Housebill 2748 with strong Coalition support
 - iii. Senate markup of S 1486 impending; problematic bill, however
- Numerous (>400 at last count) meetings to educate Members about USPS issues and potential solutions
- Media effort very successful, with Coalition routinely included in reports, both electronic and print; op-eds printed.
- Working closely with staff of Members of Congress sponsoring reform legislation
 - i. Same with staffers for Leaders in both Houses
- Working closely with PMG and other senior execs at USPS
 - Substance: restructuring – sizing USPS to actual volume of mail; financial -- return of pension overpayments, reamortization of retiree health, establishment of postal-only retiree health plan; prepayments; and much more
 - i. Multiple letters and emails to every Member of Congress and the Administration

- ii. Sponsored testimony in House and Senate
- iii. Extensive “retail” (i.e., door-to-door) and grassroots push before Senate vote and in House throughout the year; emphasis on connection in the congressional district or state
- Working with postal unions where there is commonality of goals; attempted negotiations to develop “grand bargain” with USPS and unions that has not succeeded yet

POSTAL REGULATORY COMMISSION

NPPC maintains a very active program before the Postal Regulatory Commission. We participate in virtually any proceeding where there would be significant impact on NPPC members. This year was active on several fronts, and is escalating as we near year-end because of the indexed and exigency rate filings by USPS.

NPPC’s submissions to the PRC during the past year had two aims: (1) specific results in certain cases; and (2) raising issues to lay the groundwork for desirable outcomes in the future. That is a strategy we have had some noticeable success with over the past few years.

CPI rates adjustment for FY2013, Docket No. R2013-3 (October 2012).

- Filed comments expressing mailer support for USPS “second-ounce free” proposal, which the PRC approved.
- Urged a deeper discount for 5-Digit Presort letters.
- Opposed the 10 percent increase in Postcard rates. Although those rates took effect, USPS gave Cards a much smaller increase this year.
- Joined other parties in criticizing USPS’ pricing workshare discounts to excess labor capacity, rather than reducing its costs.

Workshare Benchmark, Docket No. R2012-7 (replacing benchmark for Presort discounts with new Metered Mail benchmark).

- Supported the Postal Service in its appeal of the PRC’s decision to continue to “link” presort discounts to single-piece rates. The case remains pending, but if USPS wins, presort would no longer be tied to SP, leading to larger discounts.

Picture Permit Indicia, Docket No. R2012-7

- Filed comments supporting such indicia, but opposing USPS’ proposal to impose a surcharge.
- Argued USPS should encourage new volume, and profit would be more valuable than a surcharge on existing pieces.
- Noted imposing the surcharge unpleasantly surprised members that had helped develop the initiative, discouraging many from future such assistance.
- As expected, the PRC allowed the surcharge to take effect.

Mobile Barcode Promotional Discount, Docket No. R2012-6

- Filed comments supporting the mobile barcode promotional discount but noting confusion among mailers regarding eligibility, and reduction in the discount would discourage use.
- Urged USPS to provide a longer notice period when proposing to offer similar discounts in the future. USPS did provide, in this year’s CPI rate proposal, a full schedule of promotional discounts for the upcoming year.

Annual Compliance Review, Docket No. ACR2011 (review of prior year rates to determine whether they complied with legal requirements)

- Filed comments that presort letter rates remained high and pay an excessive overhead contribution because of “linking” presort worksharing discounts to SP rates. Although the PRC upheld the rates in this proceeding, it later in a different proceeding replaced the obsolete “Bulk Metered Mail” benchmark with the new “Metered Mail” benchmark that could result in lower presort rates of around 0.4 cents per piece in 5-Digits.
- Expressed concern that below-cost rates of Standard flats cause Standard letter rates to be higher than they should be. The PRC ordered USPS to raise Standard flats rates.
- Expressed concern presort service quality did not meet performance targets.
- NPPC joined others in criticizing USPS’ desire to “price to excess capacity” – setting discount rates not for lowest combined cost, but to offer smaller discounts so mailers prepare mail to less finely presorted levels, thus generating more “work” for underutilized postal labor. The PRC expressed concern about the practice and NPPC may be able to build on that in the future.
- NPPC also filed reply comments that pointed out:
 - Presort rates are too high from their huge contribution to overhead; and
 - That when the USPS eliminates a discount for 3-Digit Presort letters, it obscures the amount of cost savings passed through to mailers at the 5-Digit level. When there is no 3-Digit discount, the only relevant benchmark from a 5-Digit mailer’s perspective is the AADC rate.
- These reply comments helped encourage the PRC to establish a rulemaking (now underway) to revise the benchmark for determining the 5-digit discount.

Network Rationalization/Mail Processing Facilities Closing (N2012-1) PRC Advisory Opinion proceeding.

- NPPC supported successful efforts to force public release of USPS’s internal estimate of the potential revenue loss if all of its cost cutting initiatives – service reductions, ending Saturday delivery, etc. -- were adopted.
- NPPC also conducted discovery on USPS’ market research that projected reduced service standards would have a trivial effect on presort mail volumes. The responses indicated the market research was seriously flawed.
- NPPC filed comments with the Major Mailers Association that:
 - Stressed support for right-sizing the postal network;
 - Pointed out USPS had underestimated the reduction in First-Class Presort volume from the proposed reductions in service quality.
 - Highlighted the importance of USPS’ managing the transformation process to avoid service disruptions;
 - Explained service reductions are tantamount to a rate increase that may justify a reduction in the rate cap for First-Class letters. The PRC understood this point, which may become an issue in the future.

- The PRC ultimately recommended that USPS use a different approach in selecting which facilities to close that could provide cost reductions while maintaining service quality.

U.S. POSTAL SERVICE

This year, we continued NPPC's long history of working with USPS' leadership team, and other executives. Of necessity, our consultations this year were on a more narrow range of issues of concern to NPPC members than usual, but with much deeper potential impact.

Each of the following was very important for NPPC's goals and its relationship with the senior team at USPS. A near-constant effort on rates, individually and jointly with the rest of the business community, was maintained. That issue is now joined both before the PRC and in Congress.

- Maintained constant outreach and contacts throughout headquarters staff on macro issues, in particular, this year
- Raised concerns about rate increases and their execution directly with USPS pricing and strategic staff
- Arranged pan-NPPC conference call/briefing by Dave Williams and his team on latest in network rationalization
- Arranged pan-NPPC webinar on FS IMb with Pritha Mehra and her team
- Full MTAC participation
- Participated in monthly association executive meetings with PMG and senior staff that ranged through USPS initiatives on cost cutting, current financial projections, legislative status and coordination, and more, and provided serious opportunity for discussion and feedback
- Participated in major industry effort with PMG, Deputy PMG, and the Postal Governors to forestall an exigency proposal; succeeded in a two-month delay, but not further; still working on delay in implementation if legislation progresses

QUARTERLY MEETINGS

A wide range of topics was covered in each of our four meetings. Legislation, the many proceedings at the Commission – indexed rates, annual compliance review, network rationalization, NSAs -- as well as USPS initiatives on Full Service IMb, innovative products, network rationalization, special promotions and many more, all were thoroughly presented, and subject to NPPC member questions and comments to the principals involved from the postal agencies or the Hill.

- Featured PMG Donahoe, Chairman Goldway and other Regulatory Commissioners
- Other USPS senior executives, such as Nagisa Manabe, Joe Corbett and Dave Williams
- A successful 30th Anniversary Reception, highlighted by remarks from the PMG
- Prominent postal staff from Capitol Hill

