

# NPPC

National Postal Policy Council



## NPPC Annual Report 2013 – 2014

As NPPC has throughout its more than 30-year history, from the Postal Service to the Postal Regulatory Commission and on to Capitol Hill, the association maintained its very active participation, and leadership, on the major issues of the year. But as has been the case for the past several years, the ongoing legislative 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 remained at the forefront of NPPC's concerns. Whether it was in opposing the exigency increase proposal at the Commission and then participating in the judicial appeal from the Commission's decision to authorize an exigency "surcharge," advocating for legislative change, reexamining mail "elasticities," or a number of other key items, NPPC once again took a strong proactive stance. This report, in bulleted format for ease of review, summarizes the actions taken this year by the association.

### CAPITOL HILL

NPPC has had a sustained program to work with Congress on issues of importance to the postal system. In 2014, the focus has remained on postal reform legislation. Working primarily through the industry coalition, the Coalition for a 21<sup>st</sup> Century Postal Service (C21), we have confronted a number of ups and downs during the year and, as of this writing, there remains a slender, yet real, chance that we might succeed in the "lame duck" session of 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 again in 2014, primarily due to increases in the package business, cash on hand remains dangerously low and, absent legislative change, the Service may lose \$2.5 billion in 2015, according to the Postmaster General. Success on relief for USPS from Congress is, if anything, even more urgently needed: on its current course, USPS has already defaulted on three retiree health prefunding payments totaling \$16.5 billion, with a fourth looming. In other words, USPS has few reserves, and is only a small general economic reversal away from drastic cutbacks or a bailout.*

- Continued to coordinate and lead C21
  - i. Unites mailers and suppliers in pursuing goals of short- and long-term financial and structural relief on the Hill
  - ii. Major milestones:
    1. stopping S.1486 after Senate Committee approval because of very adverse governance and rates provisions
    2. developing compromise with all four postal unions and pursuing it
    3. recruiting bipartisan sponsorship for a bill embodying that compromise

- Numerous meetings to educate Members about USPS issues and persuade them to support potential solutions
  - i. Also involved opposing problematic bills on both sides of Capitol Hill, which have not progressed as of this writing
  - ii. A strategic, ongoing effort late in this session in support of the above compromise
- Media effort successful, with Coalition continuing to be 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
    - 1. Leadership in both Houses welcomes the effort to develop and advocate the industry/union compromise
- Maintained discussion with the PMG and other senior execs at USPS aimed at encouraging them to support a tripartite negotiated approach with mailers and unions  
Substance: revising healthcare structure to involve Medicare and investment in conservative options beyond Treasuries and ending \$5.5 billion annual prefunding; return of FERS overpayment; freezing of service standards, but permitting plant closings where they don't degrade services; exigency rollback in January, with CPI cap maintained and a temporary 1-point increase per year for no more than four years; silent on days and mode of delivery
  - i. Multiple letters and emails to Members of Congress
  - ii. Working closely with prospective Senators in support of our position on S. 1486, and with sponsors of the new bill
  - iii. Extensive "retail" (i.e., door-to-door) and grassroots push before Senate Committee vote and when House Committee Chairman considered introducing another bill that would have been thoroughly unacceptable on rates; he ultimately did not go ahead
- Extensive time and effort spent with postal unions to identify commonality of goals, and develop "grand bargain" that now forms the body of the new bill; efforts with USPS as of this writing have not produced an agreement with them

## 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 numerous fronts, and more remains ahead with ongoing rulemakings and inquiries, a potential indexed rate case, the outcome of the appeal from the exigency case, and more.

*NPPC's submissions to the PRC observed our two principal 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 with which we have had some noticeable success over the past few years.*

- Docket No. R2013-10 Index Rate Case: NPPC filed Comments (10/18/13) jointly with MMA, NAPM, and AMEE on the market-dominant index price changes to take effect in January 2014. The Comments, among other things, said that the Postal Service failed to properly account for the implementation of mandatory Full-Service IMb in its cap calculations; supported the new Metered Letter rate in Single Piece and its use as the benchmark for Presort letters; expressed concern about excessive prices for Presort letters; supported the proposed discount levels; and commended the Postal Service for presenting promotional discounts, but opposed “baking” discounts into prices. In its 11/21/2013 order, the Commission agreed with NPPC’s position regarding mandatory Full-Service IMb and the Single-Piece metered mail rate.
- Indexed Rate Case Appeal (U.S. Court of Appeals for the D.C. Circuit): NPPC intervened in support of the Commission’s order finding that the implementation of mandatory Full-Service IMb was a pricing change, and if kept mandatory would cause the proposed rates to exceed the price cap. NPPC participated in a brief filed jointly with other intervenors (7/16/14) in support of the Commission. Oral argument has not been scheduled, so no court decision is likely to be issued in 2014.
- R2013—11 Exigency Rate Case: NPPC, jointly with NAPM, MMA, and AMEE, opposed (11/26/13) the Postal Service’s request for an exigency rate increase on the grounds that the USPS had improperly attributed volume losses to the recession that instead were caused by electronic diversion, that the Postal Service wrongly attributed volume losses to the recession that occurred well after the recession had ended, and that the proposed increases would be counterproductive because they would accelerate the departure of mail from the postal system. NPPC, again jointly with NAPM, MMA, and AMEE, also submitted a declaration by postal economist Larry Buc that identified flaws in the USPS’s demand model and summarized a survey conducted to determine how mailers in fact take price into account when making mailing decisions. The Commission granted the Postal Service’s request for an exigent rate increase, but limited the amount of revenue that the USPS could “recover” to the losses accrued before a “new normal” was reached.
- Exigency Rate Case Appeal (U.S. Court of Appeals for the D.C. Circuit): NPPC joined a long list of mailer groups in a joint appeal from the Commission’s decision in the exigency rate case on the basis that the Commission had permitted too much recovery, through higher rates, by the Postal Service from the recession. That appeal was consolidated with an appeal from the Postal Service of the same decision, claiming that the Commission should have permitted a permanent recovery from the recession, i.e., “baking in” the exigency increase into the rate base indefinitely. NPPC contributed to both the initial and reply briefs filed by the mailers, as well as in preparation for the oral argument which took place on 9/9/14. At this writing, a decision is projected to be likely in December of this year.
- Docket No. R2013-13, USPS Request for Stay of Requirement That Surcharge Be Rescinded After “Due To” Losses Recouped: NPPC joined an opposition filed by many mailers (4/29/14) to a motion by the Postal Service asking that the order requiring it to remove the exigency surcharge be stayed until judicial review of the R2013-11 order is

complete. The Commission agreed with the NPPC position and denied the motion for stay.

- Docket No. R2013-13, Consideration of Procedures Regarding How Exigency Surcharge Will Be Rescinded: NPPC filed comments (7/28/14) in which it said that the Commission should separate the exigency surcharge from the base rates established in the R2013-10 index case, and that any inflation index adjustment should not be marked up on the surcharge. This proceeding remains pending.
- Docket No. RM2014-5 Petition for Review of Price Elasticities: NPPC, together with MMA, GCA, NAPM, AMEE, GHS, IDEAlliance, and AMSP, petitioned the Commission (5/2/14) to initiate a proceeding to review and improve the econometric demand equations for market-dominant products and related estimates of price elasticities and Internet diversion. The same parties subsequently filed a reply (5/19/14) in further support of their petition. The Commission issued an order initiating such a proceeding on July 9, and held a technical conference on August 13 to discuss an econometric model developed by its staff. NPPC filed comments (9/19/14) that addressed the staff model and suggested how the Commission should proceed.
- Docket No. RM2014-3, Commission NPRM To Amend Regulations Governing Market-Dominant Price Cap Adjustments: NPPC filed comments (3/18/14) on the Commission's review of its price cap rules governing whether the Postal Service may offset temporary promotional discounts and rate incentives by either immediate rate increases or "banking" some incremental cap authority. NPPC supported the proposal to allow offsets for decreases of general availability but not those for which eligibility depends upon factors other than the characteristics of the mail, and urged the Commission to clarify the treatment of deleted rate cells. The Commission's Order in that proceeding generally agreed with NPPC's position.

## 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 bullet points 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. A similar amount of effort was expended on legislative discussions. The rates issue remains joined before Congress in the context of overall reform legislation, and the judicial appeal is pending, which could remand the decision to the PRC for further review.*

- Maintained constant outreach and contacts throughout headquarters staff on macro issues, and legislative concerns, in particular, in 2014
- Raised and pursued concerns about rate increases and their execution directly with USPS executive leadership team

- Expressed concerns re Move Update, the Mail Entry “Roadmap,” and Seamless Acceptance
- Also maintained consistent contact with USPS Inspector General over a number of issues
- Arranged pan-NPPC conference call/briefing by the OIG team on Seamless Acceptance
- Participated in OIG session on clusterbox changes overseas
- Raised issues with OIG study/position on elasticities
- 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

#### QUARTERLY MEETINGS

A wide range of topics was covered in each of our four meetings. Legislation, the many proceedings at the Commission – indexed and exigent 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 key congressional staff.

- Featured PMG Donahoe, Chairman Goldway and other Regulatory Commissioners
- Other USPS senior executives, such as Nagisa Manabe, Joe Corbett and Dave Williams
- Prominent postal staff from Capitol Hill
- Industry Executive Speakers