

NPPC

National Postal Policy Council



NPPC Annual Report 2014 – 2015

Two Thousand fifteen has been a year of general political change and upheaval, and maybe no more accentuated than in postal affairs. On Capitol Hill, where Republicans won control of the Senate to go along with their continued control of the House of Representatives, a new majority meant a new Chairman and a new approach to postal legislation. In L'Enfant Plaza, a new Postmaster General brought fresh energy and perspective to the Postal Service. And at the Postal Regulatory Commission, a full roster of Commissioners was in place after a long interregnum. It has been a time of fresh opportunity – and challenge – to making postal policy. In this new postal environment, NPPC once again was visibly active and played a leadership role on critical issues, whether in Congress or at either postal agency. Some of the issues were familiar: the exigency appeal and remand; postal financial stabilization legislation; the appeal and remand of whether the IMb incentive rate fits under the rate cap. Others were new, such as attempts to update Certificates of Mailing or audit NCOA Link accounts with little notice. NPPC once again took a strong proactive stance on these and more. This report, in bulleted format for ease of review, summarizes the actions taken this year by the association.

CAPITOL HILL

NPPC maintains a sustained focus on issues in Congress of importance to the postal system. In 2015, attention shifted from broad postal reform to a streamlined approach concentrated on financial stabilization. Working primarily through the industry coalition, the Coalition for a 21st Century Postal Service (C21), NPPC has been heavily engaged in trying to work out an approach supported by the three principal postal stakeholders: the Postal Service, the postal unions and the mailing community, including its suppliers in paper and printing. At this writing, we have come close to an agreement. There is widespread consensus that without such an agreement, chances for postal legislation addressing USPS' poor financial condition will be dismally low.

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 2015, that is primarily due to increases in the package business and the exigent 4.3% surcharge, which is due to expire on or about next April 1. Cash on hand and liquidity generally remain dangerously low and, absent legislative change, the Service can almost surely count on major losses in 2016 and beyond. Although it has defaulted on four retiree health prefunding payments with no overt repercussions, those dollars owed remain on its balance sheet. And, without the exigent surcharge, operations will sink back well into the red. This augurs ominously for the 2017 scheduled review and revision of the ratesetting system by the PRC. The redder Postal Service finances are, the greater pressure on the Commission to give USPS more latitude to raise rates, with unpredictable consequences for the industry and the system.

- 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. earning support from key Members of Congress for a joint stakeholder position;
 - 2. pursuing such a position with substantial progress;
 - 3. forestalling premature decisions to move ahead.
- Numerous meetings on Capitol Hill to educate Members about USPS issues and the substantive and political value of a stakeholder-supported potential solution
- Media effort successful, with Coalition continuing to be routinely included in reports, both electronic and print; op-eds printed.
- Continuing to work 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 a joint stakeholder compromise
- Maintained a tripartite negotiating effort with the PMG and her senior team, and all four union Presidents. Substance: revising prefunding healthcare structure to involve Medicare and investment in conservative options beyond Treasuries and ending \$5.5 billion annual; return of any FERS overpayment; exigency rate baked in in exchange for rate freeze through January 1, 2018 and the other provisions above; silent on days and mode of delivery; side deal on service standards, measurement and performance.
 - i. Working closely with Senators, Representatives and staff to keep them informed of progress in the negotiations, and encourage forbearance until we finished;
 - ii. Working closely with the Coalition to reengage after first effort was rejected by mailers based largely on one flawed provision.
- Extensive time and effort spent with our counterparts above to attempt to achieve a joint position.

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 very active on numerous fronts, and more remains ahead with ongoing rulemakings and inquiries.

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.

- Annual Compliance Review 2014: NPPC filed Comments (2/2/15) that: (1) questioned whether the persistent exorbitant cost coverages and unit contributions facing First-Class Automation and Presort Letters and Cards violated the statutory requirement for a just and reasonable rate schedule; (2) cautioned the Commission to take into account the fluctuating estimates of costs avoided when analyzing workshare discounts; and (3) urged the Commission to consider offsetting the price cap applicable to First-Class Mail in view of recent reductions in service quality and the increased costs of using the mail due to the Postal Service's shifting of costs to mailers. In Reply Comments (2/13/15), NPPC reiterated the points made in its opening comments and rebutted criticisms from the APWU and GCA of the Metered Mail rate category within Single-Piece First-Class Mail, noting that it serves as the benchmark for Presort rates and is just and reasonable.

In its Annual Compliance Determination, the Commission affirmed the Metered Mail rate as NPPC had urged. Otherwise, the Commission allowed the noticed rates to take effect. It did not address adjusting the price cap to offset service reductions and cost shifting.

- R2015-4 Index Rate Case: NPPC filed Comments (2/4/15) on the Postal Service's notice of market-dominant price adjustments, which ultimately took effect in May 2015. NPPC stated that the Postal Service's proposal to increase Presort rates while leaving the Single-Piece rate untouched and reducing the Metered Mail rate differential was unreasonably discriminatory in violation of Section 403(c), that the 2.7 percent increase in the Automation 5-Digit Letter rate violated the statutory objective to maximize incentives to reduce costs and increase efficiency, and that the Automation 5-Digit Flats discount was necessary to avoid rate shock. The Commission approved the Presort rates, and specifically approved the Automation 5-Digit Flats discount. In a concurring opinion, Commissioner Goldway stated that index rate cases are ill suited to resolving allegations of unreasonable or discriminatory rate changes.
- PI2015-1 Measurement of Market-Dominant Service Performance: NPPC filed Reply Comments (5/5/15) on the Postal Service's proposal to change to an internal market-dominant mail service performance measurement system. We stated that any postal service measurement system should be (1) transparent, objective, unbiased, and effective; and (2) produces results that may legitimately be compared to results measured by the current system on an apples-to-apples basis. The Commission generally agreed with NPPC's position, and required the Postal Service to operate both systems concurrently for a year to enable comparisons between the results of the two methodologies.
- RM2015-7 Rulemaking on Proposed Changes to City Carrier Street Time Costs Model: NPPC filed Reply Comments (5/13/15) supporting the Postal Service's effort to update its city carrier street time costing model to reflect the current mail mix, the increased use of barcodes, and the current operating environment, including the Flat Sequencing System. We noted that it is important that the costing methodologies approved and used by the Commission are sufficiently robust to detect cross-subsidy of Competitive Products and to ensure that all costs caused by Competitive Products are accurately charged to those products. NPPC also urged the Commission to make sure institutional costs are measured and accounted for properly. This proceeding remains open as of September 30.

- R2013—11R Exigency Rate Case Remand: NPPC, jointly with GCA, filed Comments (6/26/15) in the remand proceeding of the R2013 exigency rate case. NPPC and GCA argued that the Commission should limit its consideration to considering the proper count of mail pieces lost due to the recession; recognize that the Postal Service’s “count every piece every time” overcounts volume losses; recognize that some of the pieces lost in Year 1 or Year 2 due to the recession would have left the mail in subsequent years for other reasons; and ensure that mailers are protected against any over-recovery by the Postal Service of any further amount that the Commission ultimately may authorize under 39 U.S.C. §3622(d)(1)(e). In Reply Comments (7/6/15), NPPC and GCA presented a calculation of the volume of mail that would have been lost due to other reasons even had the recession not occurred. NPPC and GCA also argued against the Postal Service’s attempt to reopen issues on which the Court of Appeals had affirmed the Commission and to extend the exigency surcharge for as much as seven more years.

The Commission limited its decision on remand to recounting the pieces lost due to the recession and agreed with NPPC and others not to reopen issues on which the Court of Appeals had affirmed it. Thus, the Commission acted to keep the exigency surcharge in place for less than one additional year, instead of the much longer period the Postal Service had sought. However, the Commission declined to reduce the number of pieces lost due to the recession to account for those pieces that would have been lost for diversion or other reasons.

In September, NPPC filed a motion to intervene in the Postal Service’s petition to the U.S. Court of Appeals for the D.C. Circuit to review the Commission’s decision on the exigency remand.

- Docket No. R2013-10R Index Rate Case Remand: NPPC participated in Comments (8/17/15) filed jointly with PostCom, ANM, MMA, and MPA in the remand proceeding in the 2013 market-dominant index price change case addressing the test that the Commission should apply to determine when a change in USPS mailing regulations constitute a price change with price cap ramifications (the Full-Service IMb case). NPPC, jointly with the other commenters, commented that the Commission’s proposed multipart test was too vague and indeterminate, and therefore failed to give sufficient notice to mailers and to the Postal Service of what mailing regulation changes might have consequences on the price cap. Instead, NPPC and the other mailers proposed that the Commission apply a simpler test based on the current rules governing de minimis rate changes.

NPPC also participated in Reply Comments (8/31/15) filed jointly with the same mailer parties. In the reply comments, NPPC opposed the Postal Service’s suggestion to limit Commission review to changes in posted rates or to changes that meet the definitions of mail classification changes.

U.S. POSTAL SERVICE

In 2015, NPPC continued its 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 2015
- Raised and pursued concerns about rate increases, especially exigency, and their execution directly with USPS executive leadership team
- Expressed continued concerns re Seamless Acceptance
- Raised Certificate of Mailing Issue directly with Gary Reblin and colleagues; led the MTAC Working Group on this matter
- Raised NCOA Link issue with USPS COO and CMSO, and won assurances of revisions to make audits and inspections more reasonable
- Also maintained consistent contact with USPS Inspector General over a number of issues
- Participated in several forums and studies conducted by the IG;
- Full MTAC participation
- Participated in bimonthly 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 Brennan, Chairman Taub and other Regulatory Commissioners
- Other USPS senior executives, such as Jim Cochrane, Linda Malone, Gary Reblin and Pritha Mehra

- Prominent postal staff from Capitol Hill
- Industry Executive Speakers, such as Ramesh Ratan, CEO of Bell+Howell