

NPPC

National Postal Policy Council



NPPC Annual Report 2015 – 2016

The 2015 – 2016 fiscal year has been challenging on policy. The longstanding effort to enact postal financial stability legislation ground on; there were a number of proceedings affecting NPPC Members' interests at the Postal Regulatory Commission; and continued work on the Certificate of Mailing, NCOALink audits and other issues at USPS. But casting its shadow over every aspect of postal affairs has been the looming review of the rate and classification setting system at the PRC, and its potential to radically and uncomfortably alter the postal rates landscape.

As has been consistently the case throughout its history, NPPC once again was visibly active and played a leadership role on these critical issues. We are continuing to work on all of these issues and, most important, prepare for the rate setting review, which will formally begin on December 20 of this year. Following is a summary of the issues and our actions from this Fiscal Year.

CAPITOL HILL

NPPC continued its ongoing program of working with Congress to sustain and improve the postal system. All-consuming during 2016 has been the effort to move a streamlined bill designed to concentrate on financial stabilization of the Postal Service, which continues to be mired in balance sheet red ink. NPPC once again worked primarily through the industry coalition, the Coalition for a 21st Century Postal Service (C21), on this issue. In June, we were able to gather a broad consensus of stakeholders to support a compromise, bipartisan bill to bring some relief to USPS: The Postal Reform Act of 2016, HR 5714. Heavy on financial stabilization and light on broader reforms, we helped see it to approval in July in committee in the House of Representatives. At this writing, we are now focusing on bringing the bill to the House Floor. All votes will take place during an almost inevitable "Lame Duck" session of Congress later this year.

NPPC's continued strong support for financial stabilization legislation is rooted in the realization that without such help from Congress, the PRC will experience extreme stresses for pricing rates to bring in the very substantial additional revenues needed to repair the USPS balance sheet. Cash on hand, which is the best measure of USPS' financial status at any time will be a relatively modest \$6+ billion at the end of its fiscal year. However, USPS projects a negative cash balance on hand of nearly \$7 billion by the end of FY 2018; in other words, true insolvency. Thus, the major section of the industry represented by C21 has accepted a one-time 2.15% rate increase in the legislation, in exchange for integrating postal retirees fully into Medicare, which will save USPS approximately \$3 billion/yr.

- 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 in 2016:
 - 1. Galvanizing industry support for the compromise at the heart of HR 5714;
 - 2. Advocating successfully its adoption by the Oversight and Government Reform Committee; and
 - 3. Leading the industry effort to secure a vote on the House Floor.
- Numerous meetings on Capitol Hill to educate Members about USPS issues and the substantive and political value of a stakeholder-supported potential solution
 - Continuing to work closely with staff of Members of Congress sponsoring reform legislation
 - i. Same with staffers for Leaders in both Houses
 - 1. Leaders in both Houses are ready to move ahead, should there be broad support for the bill
 - Maintained close communications and coordination where appropriate with the postal unions and the Postal Service;
 - Successfully helped to stop the iPOST Bill, S. 2051, in the Senate because key provisions were not in the interests of NPPC's Members (e.g., full restoration of the exigency rates)

POSTAL REGULATORY COMMISSION

Of necessity, 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. As the summary below demonstrates, this year numerous activities before the Commission required our involvement.

NPPC's submissions to the PRC continued to observe 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 2015: NPPC filed Comments (2/2/16) that (1) supported Postal Service's pragmatic approach to pricing as the appropriate response to workshare discounts that exceed 100 percent due to reductions in the estimated costs avoided; (2) noted that the 69.4 percent pass-through at the Automation 5-Digit level sends inefficient signals that promote uneconomic mailer behavior, and means that the Postal Service does not charge a compensatory price for sorting to the 3-Digit/AADC level; (3) pointed out that the continued excessive cost coverage for First-Class Mail indicates a problem with the current system of using "top-down" pricing for First-Class Automation and Presort Letters and Cards; and (4) recommended that the Commission consider applying an incremental cost test in market-dominant mail in the future.

In its Annual Compliance Determination, the Commission declined to order the USPS to adjust any discounts. It also said that the law permits the USPS to pass through substantially less than 100 percent of the costs avoided.

- R2016-2 UPS Proceeding: NPPC filed Comments (12/7/15) on the Postal Service's notice of price-cap rate increases. NPPC supported the announced promotions and related changes, and urged the Postal Service in the future to offer far more promotions in First-Class Mail than the mere three in the notice, considering that the annual volume of First-Class Mail exceeds 63 billion pieces.
- RM2016-2 UPS Proceeding: NPPC filed Comments (1/25/16) regarding UPS's proposed changes to cost attribution methodologies. NPPC: (1) noted that its members would pay approximately 40 percent of any costs improperly deemed institutional; (2) said that inframarginal costs are part of a product's incremental costs and should be included when testing for cross-subsidy; and (3) took no position on UPS's substantive proposals about how costs should be attributed.
- RM2016-4 Ex parte rules: NPPC joined 13 other mailer groups led by the National Association of Presort Mailers in opposing a Postal Regulatory Commission notice of proposed rulemaking to modify its *ex parte* rules. The joint comments noted that the proposal failed to recognize the distinctions between formal adjudication and informal rulemaking proceedings and inadvisably would apply to the latter strict rules appropriate to the former. The comments also noted that the NPRM proposed an overbroad definition of when a matter is "before the Commission" and contemplated excessive penalties for violations.

The Commission, in its final order, essentially backed down and softened its proposal significantly, so that mailers are not prohibited to discussing with the Commission matters of interest to them.

- R2013-10R Index Rate Case Remand: NPPC participated in Comments (4/11/16) filed jointly with PostCom, ANM, MMA, and MPA on a petition for reconsideration filed by the Postal Service in the further proceeding in the 2013 market-dominant index price change case remanded from the Court of Appeals. The comments addressed the test that the Commission announced its intention to apply in determining 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 although the Commission's test is not perfect, the Commission has the power to resolve such questions on a fact-specific basis.

The Commission ultimately retained its test. The Postal Service has filed for judicial review of that decision in the U.S. Court of Appeals for the District of Columbia Circuit, and NPPC has intervened in support of the Commission.

- RM2016-6 Motion Practice re Mailing Preparation Changes: NPPC, joined by NAPM and AMEE, commented (9/2/16) on the Commission's proposal to establish a motion practice proceeding to determine whether mailing preparation changes have rate effects by deleting or redefining rate cells. NPPC et al commented that the proposed 30-day window in which to file motions was too short and, in some scenarios, unworkable; that the Postal Service should provide more information with announcing a mailing regulation

change; and that the Postal Service and the Commission, not the mailers, are responsible for enforcing the law.

The proceeding is pending at the Commission.

- R2013—11R Exigency Rate Case Remand: The Postal Service last year filed in the U.S. Court of Appeals for the District of Columbia Circuit for judicial review of the Commission order removing the exigency surcharge, seeking a judicial ruling that the surcharge should remain in place for a longer period. NPPC intervened in support of the Commission last September.

Oral argument took place on September 20, 2016.

- Ten-Year Rate Setting System Review: In anticipation of the Dec. 20, 2016, initiation of the proceeding to review the system for regulating rates of market-dominant postal products, NPPC has retained legal counsel and economic consultants, identified co-parties, and identified potential legal and economic issues. NPPC has already initiated preliminary economic work and legal research in anticipation of the start of the proceeding.

U.S. POSTAL SERVICE

In 2016, NPPC once again worked closely with the USPS leadership team, and other executives. This year's efforts included some key operational issues, as well as cooperation in pursuing mutual goals on Capitol Hill.

The following bullet points summarize the efforts made to both achieve NPPC's goals and enhance its relationship with the senior team at USPS. We have focused on these issues in the NPPC way: as a matter of collaboration and mutual respect. This remained true, as always, whether the discussion concerned rates, operational issues or legislation.

- Maintained constant outreach and contacts throughout headquarters staff on macro issues, and legislative concerns, in particular, in 2016
- Raised and pursued concerns about rate increases, both CPI and the impending rate system review, 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
- Pursued the NCOA Link issue with a senior team designated by USPS, and are awaiting proposed specific revisions of the process to make audits and inspections more reasonable. In the meantime, audits continue to be suspended.
- Also maintained consistent contact with USPS Inspector General over a number of issues

- i. Participated in several forums and studies conducted by the IG;
 - Full MTAC participation, with a renewed team taking the mantle in transition from key NPPC MTAC members who have ably represented the association for many years
 - 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

As always, NPPC quarterly meetings drew informative guest speakers, and were well-attended by NPPC members. Among other matters, legislation, the many proceedings at the Commission – indexed rates, the annual compliance review, the IMb rates and exigency court cases, the UPS proceeding 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 several Postal Regulatory Commissioners and USPS senior executives, such as CMO Jim Cochrane, CFO Joe Corbett, Gary Reblin, Linda Malone and Pritha Mehra
- Key Commission staff, including the head of the PRC technical team
- Prominent postal staff from Capitol Hill
- Industry Speakers, such as the NALC Chief of Staff and the co-Manager of C21

A Brief Look Forward to 2017

NPPC will move ahead with its efforts on priority issues, including the rate setting review and other proceedings at the Commission, legislation, specific issues at USPS and a lively and informative program at our quarterly meetings. Members can expect to be consulted, as well as updated, all along the way, because our positions represent the best consensus interests of NPPC's membership. We look forward, as always, to your participation and your input.