

NPPC

National Postal Policy Council



NPPC Annual Report 2016 – 2017

There was something of a watershed on postal policy in NPPC's latest fiscal year. While there was early heartening progress, legislation to restore postal financial stability legislation has stalled in the House. The Senate awaits House action. Simultaneously, at the Postal Regulatory Commission, the long-awaited-with-trepidation ten-year review of the rate and classification setting system began. At the same time, there were a number of ups and downs at the Postal Service on specific matters, such as Certificate of Mailing, Move Update, Informed Visibility, Promotions for 2018, and more. NPPC has been an active participant on all.

All efforts are continuing at full throttle. Following is a summary of the issues and our actions from this Fiscal Year.

CAPITOL HILL

NPPC continued its extensive program of working with Congress to sustain and improve the postal system. Once again in 2017, our prime effort has been on attempting to move a streamlined bill designed primarily to financially stabilize the Postal Service, whose financial decline, already dangerously pronounced, has resumed accelerating. NPPC once again worked primarily through the industry coalition, the Coalition for a 21st Century Postal Service (C21), on this issue. In January, House Oversight Subcommittee Chairman Jason Chaffetz and bipartisan colleagues reintroduced last year's Postal Reform Act (now of 2017) with a new number, HR 756, which retained its highly unusual broad consensus of postal stakeholders, to support a compromise bill to bring some relief to USPS. C21 represented the industry in testimony before the Committee. The bill was approved by the Committee in March, nearly unanimously -- one dissent. The bill then stalled because of several unusual circumstances, the most important being Chaffetz' unexpected departure from Congress in June, and deferral of consideration of the bill by Ways & Means Committee Chairman Kevin Brady, who had jurisdiction because the bill touches on Medicare.

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 likely be a relatively modest \$6+ billion at the end of its fiscal year – about 38 days at the USPS rate of spend. However, USPS projects a negative cash balance on hand of nearly \$7 billion by the end of FY 2018; in other words, true insolvency, unless it defaults on not only retiree health care, but pensions, as well – which it has done as of September 29. Thus, the major section of the industry represented by C21 has again 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 2017:
 1. Maintained industry support for the compromise at the heart of HR 756;
 2. Advocated successfully its adoption by the Oversight and Government Reform Committee;
 3. Led the industry effort, in concert with USPS and the postal unions, to secure a vote on the House Floor; and
 4. Conducted a traditional and social media effort to stimulate support for the bill.
- Numerous meetings on Capitol Hill to educate Members about USPS issues and the substantive and political value of a stakeholder-supported potential solution
- Continued 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 and Mr. Brady no longer defers the bill and
- Maintained close communications and coordination where appropriate with the postal unions and the Postal Service.

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.

- R2017-1 Market-Dominant Price Adjustments: NPPC filed Comments (11/1/16) jointly with MMA and AMEE on the Postal Service's notice of price-cap rate increases. NPPC *et al* supported as steps towards a more efficient rate design the increased price differential between Metered letters and Single-Piece letters and the increase in the discount for 5-Digit Automation letters, and urged the Postal Service to continue to increase the discount passthrough to 100 percent. NPPC also supported the retention of the Full Service Intelligent Mail discount and supported the Postal Service's decision to adjust Standard Mail destination entry discounts incrementally over several adjustments.

The Commission approved the rates consistent with NPPC recommendations.

- Annual Compliance Review 2016: NPPC took the lead in filing Comments (2/2/17), jointly with the Major Mailers Association and the National Association of Presort Mailers, 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 67.6 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; and (3) pointed out that the applicability of Altman Z-Scores to the Postal Service has not been demonstrated.

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.

- RM2017-1 Institutional Cost Contribution requirement for Competitive Products: NPPC filed Reply Comments (3/9/17) that opposed both eliminating the minimum required contribution and raising it substantially. NPPC urged the Commission either to retain the current 5.5 percent minimum or raise it modestly in order not to disrupt the Postal Service's pricing of Competitive Products.

The proceeding remains pending at the Commission.

- RM2017-3 10-Year Review: NPPC took the lead in filing extensive Comments (3/20/17), jointly with the MMA and NAPM, in the statutorily-mandated proceeding to evaluate the current system of regulating the rates of market-dominant postal products. In the 75-page comments, NPPC: (1) stated that continuing and improving the price cap is vital to ensuring the Postal Service's continued competitiveness; (2) argued that the proceeding gives the Commission no power beyond its normal administrative power to modify its regulations; (3) critiqued the Commission's proposed framework for considering the statutory Objectives, supporting it in some instances and opposing it in others; (4) pointed out that the Postal Service is financially stable in all relevant measures, with strong cash flow and balance sheet; and (5) demonstrated that Presort Mail has been charged unjust prices for a decade while sortation services have been underpriced. NPPC also stated that the current system could be improved by requiring the Postal Service to use Efficient Component Pricing to maximize the incentives to reduce cost and promote efficiency and that it conduct a cost-benefit analysis before changing mailing requirements or imposing additional costs on mailers. Furthermore, NPPC stated that workshare discounts should be set solely with reference to within a product and pass through 100 percent of the avoided costs absent a compelling justification for a different percentage. Finally, NPPC recommended that the Commission interpret the exigency provision in a manner more consistent with its purpose and revise its rules for negotiated service agreements to make volume retention and expansion agreements less difficult to approve.

The proceeding remains pending at the Commission.

- RM2016-6 Motion Practice re Mailing Preparation Changes: NPPC took the lead in filing Comments (5/1/2017), jointly with NAPM and AMEE on the Commission's revised proposal to establish procedures to determine whether mailing preparation changes have rate effects by deleting or redefining rate cells. NPPC supported the revised proposal, stating that it (1) properly emphasizes that the Postal Service – and not mailers -- bears the obligation to comply with the price cap, subject to the Commission's enforcement, (2) would promote clarity and efficiency by having the Postal Service post all of its mailing regulations in one place; and (3) would correctly clarify that the Postal Service bears the burden of proving that modifying a mail preparation requirement does not constitute a mail classification change having price cap consequences.

The proceeding remains pending at the Commission.

- R2017-7 Move Update: NPPC filed Comments (7/20/2017) on the Postal Service's proposed change in the Move Update penalty and related change in enforcement mechanism. NPPC explained that the error rate tolerance should be set at 1.0 percent instead of the 0.5 percent the Postal Service asked, and that the error rate tolerance should be specified in the Mail Classification Schedule, rather than left to the Postal Service's discretion. NPPC also explained how the requirement that postal rates be just and reasonable should prevent mailers from being subject to double jeopardy in the form of separate enforcement by the Postal Inspection Service.

The Commission approved the Postal Service's Move Update rate change and reduction in the error rate tolerance, but adopted the NPPC's recommendation that the threshold be placed in the Mail Classification Schedule – which is subject to Commission review – rather than left to the Postal Service's discretion.

U.S. POSTAL SERVICE

In 2017, 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 2017
- Raised and pursued concerns about rate increases, both CPI and the rate system review, and their execution directly with USPS executive leadership team
 - i. Also strongly supported the since-suspended Promotions for 2018

- Expressed continued concerns re Informed Visibility
- Certificate of Mailing Issue: our well-respected MTAC Team led the MTAC Working Group on this matter and came to a mutually-acceptable resolution after extensive discussions
- Continued focus on the NCOA-Link issue with a senior team designated by USPS, and are still awaiting a final resolution of the process to make audits and inspections more reasonable. In the meantime, audits continue to be suspended.
- Maintained consistent contact with USPS Inspector General over a number of key issues
 - i. Participated in several forums and studies conducted by the IG;
- Full MTAC participation, with our enhanced team building on the able efforts of their predecessors
- 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
- Webinars on important topics, such as Informed Delivery; and
- NPPC Meetings with key USPS executives at the National Postal Forum.

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, Move Update, the IMb rates and exigency court cases, as well as USPS initiatives on Informed Visibility, Informed Delivery, innovative products, network rationalization, special promotions and many more, and more than any, Phase 1 of the Commission’s Ten-Year Review of the rate and classification setting system, 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 the Postmaster General, several Postal Regulatory Commissioners and USPS senior executives, such as CMSO Jim Cochrane, CFO Joe Corbett, CIO Kristin Seaver, VPs Steve Monteith, Sharon Owens and Pritha Mehra
- Key Commission staff
- Prominent postal staff from Capitol Hill; and
- Industry Speakers, such as the CEO of Pitney Bowes, Marc Lautenbach

A Brief Look Forward to 2018

NPPC will move ahead with its efforts on priority issues, including Phase 2 of the rate and classification 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.