

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012

Docket No. N2012-1

**COMMENTS OF THE NATIONAL POSTAL POLICY COUNCIL AND
THE MAJOR MAILERS ASSOCIATION**

(July 10, 2012)

At a time in which the Postal Service is experiencing unprecedented financial pressures and declining volumes, the National Postal Policy Council (“NPPC”) and the Major Mailers Association (“MMA”) understand the need to adjust the postal network to a size that is appropriate to process, transport, and deliver the mail in the future. NPPC and MMA – which represent the great majority of First-Class Presort mail volume -- respectfully urge the Commission’s advisory opinion regarding the proposed reductions in service standards that would implement the network restructuring to take into account that:

- It is essential that the Postal Service cut costs and save money through right-sizing its network;
- Reducing service standards will reduce First-Class Presort Mail volumes, the loss in Presort volume will likely exceed the 1.4 percent estimate relied upon by the Postal Service in this proceeding, and will have the unfortunate effect of accelerating the migration of Presort mail out of the postal system;
- Unless the Postal Service manages the process of right-sizing the physical network carefully, transparently, and in a manner sensitive to mailer needs, Presort Mail volumes could leave the mailstream even more quickly; and
- Reducing service standards is a degradation in service that justifies an adjustment to the rate caps applicable to the affected classes of mail.

I. NETWORK RESTRUCTURING IS REGRETTABLE BUT NECESSARY

Closing processing plants that once were needed when mail volumes were much larger, but which current revenues cannot sustain, is an unfortunate but necessary step towards right-sizing the Postal Service going forward. The staggering loss of mail volume in recent years and the projection for a continuing decline makes it imperative that the Postal Service restructure and rescale its size to match reasonably anticipatable future volumes.

But the Postal Service's restructuring efforts must be conducted in a thoughtful, logical, and coordinated manner. Throughout and after the transition process, the Postal Service must also maintain quality service to its customers.

Subsequent to the filing of this case, the Postal Service announced, and on July 1, 2012 implemented, a somewhat modified 2-phase restructuring plan. While NPPC and MMA do not necessarily endorse every aspect of the two-phase process, they understand that action is necessary, and hope that the Postal Service will soon begin to realize cost savings from the changes implemented.

Nonetheless, NPPC and MMA would strongly object if in practice either the Phase 1 changes, or ultimately the Phase 2 changes, lead in practice to four-, five-, or even six-day delivery becoming the norm. NPPC and MMA recognize that such is not the Postal Service's stated intention, but to date the Postal Service's pledges regarding monitoring and enforcing consistent two- and three-day delivery have lacked detail about how service slippage will be detected and rectified.

II. FIRST-CLASS PRESORT VOLUMES ARE LIKELY TO DECLINE BY MORE THAN THE POSTAL SERVICE ESTIMATES

The Postal Service acknowledges that eliminating overnight delivery *per se* or, in general, the shift to a delivery standard for First-Class Mail of two- and three-days will cause a reduction in First-Class Presort Mail volume. The Postal Service, based on rather problematic market research, forecasts a 1.4 percent decline in Presort volume. USPS-T12-22 & Tr. 3/772 (Whiteman).

Reducing service standards is not a sales strategy that encourages mailers to increase their use of the mails. NPPC and MMA believe that the reduced service standards for First-Class Mail will in fact lead to a greater reduction in Presort mail volumes than the 1.4 percent decline estimated by the Postal Service, although by how much is not known.

One reason for this is simply feedback to NPPC and MMA from their members. Although this information has not been submitted as formal testimony, it suggests that the Postal Service's estimate of only a 1.4 percent decline in Presort volume is optimistic.

A second reason is the cumulative effect of the recent litany of proposals to curtail service -- eliminating Saturday delivery, closing post offices, warning Congress of running out of cash imminently -- that serve to undermine confidence in the Postal Service as a business vendor. Indeed, the Postal Service itself, if inadvertently, illustrated this when, in August 2011, its market research team referred to several of the ideas under consideration -- including the closing of retail facilities and the

elimination of Saturday delivery. The results of that survey, now in the record as APWU Cross-examination Exhibit 1 (Whiteman), suggests that the combined effects of these various initiatives could be quite worse than the sum of its parts, and that the steady drumbeat of crisis calls and various proposals to reduce service indeed have negative synergistic effects.

A third reason is the effects of the service reductions on businesses. Service reductions will in turn lead to slowed receivables and, in practice, diminished working capital. See <http://cepobserver.com/2012/06/the-financial-impact-o-changing-usps-service-standards-on-the-private-sector/>. That article quotes a leading investment firm as noting that the service changes could have the effect of “accelerating any loss in volume and revenue associated with transaction mail” and could cause businesses to suffer reductions in their working capital. In particular, it recommended that its clients take specific steps to encourage electronic payments and to consider innovative electronic strategies.

At this point, there is little reason to place much credence in the Postal Service’s market research. From the beginning, the design of the market survey makes a representative result unlikely. For example, there is no evidence as to whether the various interviewees were representative, nor does the USPS know what percentage of First-Class volume these mailers represented. Tr. 3/488-489 & Tr. 3/500 (Elmore-Yalch).

Furthermore, the Postal Service has never had any idea whether, or how many, Presort mailers will modify their mailing practices to meet the new Critical Entry Times

in order to obtain overnight delivery. Tr. 2/202 (Williams). Adjusting to earlier CETs can be a considerable cost to mailers. For example, the cost of purchasing new inserting hardware to adjust to earlier CETs could run in excess of \$500,000 per unit. And Presort mailers will have to alter their preparation times and add at least an extra day when forecasting response times to mailed statements. Requiring mailers to make substantial additional investments in equipment, transportation, software or personnel to obtain the same service makes mail a less attractive option.

One might expect that knowing how many customers will have to make adjustments to maintain service quality would be important to the Postal Service. Instead, the Postal Service has simply assumed that survey respondents took into account their own additional expenses before responding. Tr. 3/769-770 (Whiteman). That assumption that cannot be taken seriously. The notion that mailers could understand the proposals in the market research, comprehend their cost and business implications, and formulate what changes would be necessary to their mailing practices during the course of a brief 20-minute telephone interview is preposterous on its face. Tr. 3/549 (Elmore-Yalch) & Tr. 3/855-856 (Whiteman).

In any event, it is unclear whether the market research – however flawed -- presented in this case remains even remotely relevant after the recent change to a two-phase implementation. The Commission should recognize that the actual Presort volume losses will likely exceed the forecasted amounts.

III. THE POSTAL SERVICE MUST CONDUCT ITS NETWORK RESTRUCTURING THOUGHTFULLY AND CAREFULLY IN ORDER TO AVOID EVEN LARGER VOLUME LOSSES

Regardless of the accuracy of the Postal Service's volume forecasts or the reports of NPPC and MMA members to their associations, the Postal Service will assuredly drive away much more volume than anyone expects if it fails to manage the rationalization process in a thoughtful and logical way that addresses and resolves mailer concerns. Similarly, if the Postal Service is unable to maintain even the lessened service that the revised standards would dictate, it will serve only to compound its problems by driving away still more volume.

The Postal Service has made commendable efforts thus far to explain what it intends to do, but mailers will need clarification, assurances and outreach throughout the process. The worst outcome would be a mismanaged transition that backfires by stimulating swifter abandonment of the mail.

At the mailer level, some volume losses can be avoided if the Postal Service takes steps to accommodate mailers with particular needs for overnight delivery or other matters. To date, the Postal Service has shown a commendable willingness to attempt to understand and consider possible accommodations.

IV. THE COMMISSION SHOULD ADDRESS THE IMPLICATIONS OF REDUCING SERVICE STANDARDS ON THE RATE CAP FOR FIRST-CLASS MAIL

It is undisputed that the service that the Postal Service proposes to provide to Presort First-Class Mail under the network restructuring at issue in this proceeding will

be reduced from the service standards today. Tr. 2/175 (Williams) (98.7 percent of current overnight mail will be converted to two-day delivery). NPPC and MMA urge the Commission to address in its opinion the effect of this service reduction on the rate cap applicable to the classes subject to the service reduction.

As witness Neels, testifying for the Public Representative, explained, a reduction in service standards equates to a relaxation of the price cap. Minimum service standards exist under price cap regimes to protect ratepayers from erosion of service quality. The Postal Service here is proposing precisely such an erosion. The Commission should consider whether the service quality erosion should be offset by a corresponding reduction in the applicable rate cap.

Respectfully submitted,

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