

NPPC

National Postal Policy Council



NPPC Annual Report 2011 – 2012

As has become customary, we are following a bulleted format for our report of NPPC's activities and accomplishments during our past fiscal year (November 1 – October 31). From the Postal Service to the Postal Regulatory Commission and on to Capitol Hill, NPPC once again led or participated on a wide variety of important matters. But it remains the case that none is more important than the ongoing 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.

CAPITOL HILL

NPPC continued heavy engagement on Capitol Hill to encourage Congress to provide relief to the financially embattled USPS. Failure to change USPS from its current financial trajectory could mean completely running out of liquidity (cash + available credit) and a partial or complete shutdown of the system, according to USPS, by October, 2013. Any unexpected, even moderate, volume decline could mean operational impact, up to and including a shutdown, at any time in 2013.

Success on relief for USPS from Congress is, if anything, even more urgently needed: on its current course, USPS has already defaulted not only on pension payments, but on two retiree health prefunding payments totaling \$11 billion. USPS' FY 2012 loss was \$15.9 billion, with \$2.4 billion of that directly from operations. It could run completely out of cash and have to halt its operations by next August unless something is done, with disastrous consequences.

- Continued to coordinate and lead the Coalition for a 21st Century Postal Service
 - i. Unites mailers and suppliers in pursuing goals of short- and long-term financial and structural relief on the Hill
 - ii. Major milestone: passage of Senate bill 1789 in April with strong Coalition support
- Numerous (>400 at last count) meetings to educate Members about USPS issues and potential solutions
- Media effort very successful, with Coalition routinely included in report, 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
- Working closely with PMG and other senior execs at USPS
 - i. Substance: restructuring – sizing USPS to actual volume of mail; financial -- return of \$11+ billion in pension overpayments, reamortization of retiree health

prepayments; and much more

- ii. Multiple letters and emails to every Member of Congress and the Administration
 - iii. Testified in House
 - iv. Extensive “retail” (i.e., door-to-door) and grassroots push before Senate vote and in House throughout the year; emphasis on connection in the congressional district or state
- Working with postal unions where there is commonality of goals

POSTAL REGULATORY COMMISSION

NPPC’s submissions to the PRC during the past year had two aims: (1) specific results in certain cases; and (2) raising issues to lay the groundwork for desirable outcomes in the future.

CPI rates adjustment for FY2012, Docket No. R2012-3 (October 2011).

- Filed comments expressing mailer support for USPS “second-ounce free” proposal, which the PRC approved.
- Urged a deeper discount for 5-Digit Presort letters.
- Opposed the 10 percent increase in Postcard rates. Although those rates took effect, USPS gave Cards a much smaller increase this year.
- Joined other parties in criticizing USPS’ pricing workshare discounts to excess labor capacity, rather than reducing its costs.

Workshare Benchmark, Docket No. R2012-7 (replacing benchmark for Presort discounts with new Metered Mail benchmark).

- Supported the Postal Service in its appeal of the PRC’s decision to continue to “link” presort discounts to single-piece rates. The case remains pending, but if USPS wins, presort would no longer be tied to SP, leading to larger discounts.

Picture Permit Indicia, Docket No. R2012-7

- Filed comments supporting such indicia, but opposing USPS’ proposal to impose a surcharge.
- Argued USPS should encourage new volume, and profit would be more valuable than a surcharge on existing pieces.
- Noted imposing the surcharge unpleasantly surprised members that had helped develop the initiative, discouraging many from future such assistance.
- As expected, the PRC allowed the surcharge to take effect.

Mobile Barcode Promotional Discount, Docket No. R2012-6

- Filed comments supporting the mobile barcode promotional discount but noting confusion among mailers regarding eligibility, and reduction in the discount would discourage use.

- Urged USPS to provide a longer notice period when proposing to offer similar discounts in the future. USPS did provide, in this year’s CPI rate proposal, a full schedule of promotional discounts for the upcoming year.

Annual Compliance Review, Docket No. ACR2011 (review of prior year rates to determine whether they complied with legal requirements)

- Filed comments that presort letter rates remained high and pay an excessive overhead contribution because of “linking” presort worksharing discounts to SP rates. Although the PRC upheld the rates in this proceeding, it later in a different proceeding replaced the obsolete “Bulk Metered Mail” benchmark with the new “Metered Mail” benchmark that could result in lower presort rates of around 0.4 cents per piece in 5-Digits.
- Expressed concern that below-cost rates of Standard flats cause Standard letter rates to be higher than they should be. The PRC ordered USPS to raise Standard flats rates.
- Expressed concern presort service quality did not meet performance targets.
- NPPC joined others in criticizing USPS’ desire to “price to excess capacity” – setting discount rates not for lowest combined cost, but to offer smaller discounts so mailers prepare mail to less finely presorted levels, thus generating more “work” for underutilized postal labor. The PRC expressed concern about the practice and NPPC may be able to build on that in the future.
- NPPC also filed reply comments that pointed out:
 - Presort rates are too high from their huge contribution to overhead; and
 - That when the USPS eliminates a discount for 3-Digit Presort letters, it obscures the amount of cost savings passed through to mailers at the 5-Digit level. When there is no 3-Digit discount, the only relevant benchmark from a 5-Digit mailer’s perspective is the AADC rate.
- These reply comments helped encourage the PRC to establish a rulemaking (now underway) to revise the benchmark for determining the 5-digit discount.

Network Rationalization/Mail Processing Facilities Closing (N2012-1) PRC Advisory Opinion proceeding.

- NPPC supported successful efforts to force public release of USPS’s internal estimate of the potential revenue loss if all of its cost cutting initiatives – service reductions, ending Saturday delivery, etc. -- were adopted.
- NPPC also conducted discovery on USPS’ market research that projected reduced service standards would have a trivial effect on presort mail volumes. The responses indicated the market research was seriously flawed.
- NPPC filed comments with the Major Mailers Association that:
 - Stressed support for right-sizing the postal network;
 - Pointed out USPS had underestimated the reduction in First-Class Presort volume from the proposed reductions in service quality.
 - Highlighted the importance of USPS’ managing the transformation process to avoid service disruptions;
 - Explained service reductions are tantamount to a rate increase that may justify a reduction in the rate cap for First-Class letters. The PRC understood this point, which may become an issue in the future.

- The PRC ultimately recommended that USPS use a different approach in selecting which facilities to close that could provide cost reductions while maintaining service quality.

U.S. POSTAL SERVICE

Continued NPPC's long history of working with USPS' leadership team, and other executives. This included consultations on a broad range of issues of concern to NPPC members, some of which were in relation to or prompted several of the actions listed below.

Each of the following was very important for NPPC's goals and its relationship with the senior team at USPS. Full Service IMb comments were vital for members' investment in and reliance upon the USPS approach by 2014. USPS' sensitization to the problem of compliance costs, and pledge to analyze them before imposing any new ones, could prove invaluable over time to our members.

- Filed comments on proposed service standard changes, recognizing the need to make them, but to do so cautiously and taking into account the specific requirements of mailers
- Filed comments on FS IMb pointing out issues to be overcome, particularly in the reliability of PostalOne!, incentive size, and better communications
- Ensured a provision prompted by NPPC in Senate legislation requiring public comment and cost/benefit analysis before imposing new compliance costs was in the version of legislation passed by the Senate – not yet law, but USPS has pledged to follow this process
- Arranged pan-NPPC conference call/briefing by Dave Williams and his team on network rationalization
- Full MTAC participation
- Participated in monthly association executive meetings with PMG and senior staff

QUARTERLY MEETINGS

A wide range of topics was covered in each of our four meetings. Legislation, the many proceedings at the Commission – indexed 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 the Hill.

- Featured PMG Donahoe, Chairman Goldway and other Regulatory Commissioners
- Other USPS senior executives, such as Paul Vogel, Joe Corbett and Dave Williams
- Prominent postal staff from Capitol Hill

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- **Improved ease of use**
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