

NPPC

National Postal Policy Council



NPPC Annual Report 2018 – 2019

Once again in 2019, the Postal Service and its customers, including NPPC members, saw a lot of activity but little in the way of outcomes, on the major postal policy issues. Through our entire fiscal year, the Postal Regulatory Commission's ten-year review of the rate and classification setting system, legislation and the Postal Service's 10-Year Plan all remained pending. The findings and recommendations of the Presidential Task Force on the Postal System were largely not embraced on Capitol Hill, and are now in a form of limbo. At the same time, the USPS financial condition continues to deteriorate, leading to even greater concern about the future direction of the system. In all of these critical policy areas, NPPC has played an active, if not lead role within the mailing (and shipping, where there is common cause) industry. We have also been active in some smaller in scope, yet nonetheless important, matters. As we contemplate our 2020 FY, NPPC remains fully committed to engaging on these matters as we press for outcomes mutually beneficial to the system, mail users and the American public.

The summary below sets forth the issues and our actions from the 2019 Fiscal Year.

CAPITOL HILL

As in prior years, NPPC extensively advocated to Congress the pressing need to move legislation to sustain and improve the postal system. Reform legislation designed primarily to financially stabilize the Postal Service, whose financial decline, already dangerously pronounced, has resumed accelerating, was our primary vehicle. NPPC remained a key voice and part of the unified industry legislative group, the Coalition for a 21st Century Postal Service (C21), on this issue. C21 undertook another intense effort this year – testifying, a highly successful staff briefing, featuring a specially-developed video – with some hope of more success in light of the political changes in the House of Representatives. Despite all that – and efforts by the unions, as well as USPS when called upon, the legislation remains stalled. No bill has yet been introduced in this Congress, despite continued focus on it by the principal sponsors. Meanwhile, a bill simply to repeal the “prefunding” of postal retiree health care, HR 2382, has not only been introduced, it has more than 250 cosponsors in the House. C21 may switch its support to that bill if the reform bill continues to stall; however, the reform bill would offer more comprehensive fixes to the USPS problems, and would be substantively preferable. The Senate also has no introduced postal reform bill.

The report and recommendations of the President's Task Force on the Postal System was released on December 4, 2018. Its conclusions and recommendations were mostly problematic from the standpoint of the mailing industry and NPPC. Examples include proposals to divide the mailstream between “essential” and other mail, leading to price hikes for marketing

mail, substantially change the pricing of packages, reevaluate the universal service obligation and more. Fortunately, and in part due to the efforts of C21, Congress did not decide to move ahead on it, although the report remains in circulation and some of its recommendations could receive renewed attention. We are watching carefully for this.

As we indicated last year, NPPC's 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. That fear proved all too real as the Commission proposed new rates of CPI + 2 + 1. Cash on hand, which is the best measure of USPS' financial status at any time, has remained stable, if inadequate, this year, in part because higher inflation beneficially impacts what USPS owes on its obligations. It will likely fund about 30 - 60 days at the USPS rate of spend. Thus, the major section of the industry represented by C21 will again be willing to accept 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. However, the legislation must also require the Commission to take its impact into account in the 10-year review, whether enacted before or after the Commission issues its ruling in that rulemaking.

- 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 2019:
 1. Maintained industry support for the compromise at the heart of HR 6076 (756) and S. 2629 through the lame duck session of the 115th Congress;
 2. Led the industry effort, in concert with USPS and the postal unions, to secure a vote on the House Floor;
 3. Pushed hard for a new reform bill in the current (116th) Congress, utilizing every tool available (and affordable).
- Numerous meetings on Capitol Hill to educate Members about USPS issues and the substantive and political value of a stakeholder-supported potential solution
- Conducted a staff briefing that attracted more than 80 individuals from both House and Senate offices
- Developed a well-received video explaining the USPS plight and legislative solution in plain, easy-to-understand terms
- Continued to work closely with staff of Members of Congress sponsoring reform legislation
 - i. Same with staffers for Leaders in both Houses
- 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, and this year required an overwhelming, but not exclusive focus on the 10-year review. A summary of our actions follows:

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, and was vitally important in the 10-year review proceeding.

- *R2019-1 Market-Dominant Price Adjustments*: NPPC filed Comments (October 30, 2018) on the Postal Service's notice of price-cap rate increases. NPPC supported the below-average increase for Automation Letter rates. NPPC also supported the Postal Service's increase in the difference between the Metered Letter and Automation Mixed AADC prices but noted that the narrowed due discount between the Automation Mixed AADC and the 5-Digit Letter tiers would dampen mailers' incentives to prepare mail in the most efficient manner. NPPC expressed skepticism that increases in the Single Piece rate by nickel increments are necessarily advisable, and criticized the increase in the residual rate.

The Commission approved the rates.
- *National Postal Policy Council v. Postal Regulatory Commission* (D.C. Circuit): NPPC's petition for review of the Commission's December 1, 2017, order finding that the current system for regulating the rates of market-dominant postal products is not achieving the objectives established by Congress, remaining pending throughout the year. NPPC periodically filed status report updates with the Court as required by a Court order granting NPPC's motion to hold the case in abeyance pending resolution of the Commission's Docket No. RM2017-3 ("10-year review") rulemaking proceeding. The Court of Appeals continues to hold the case in abeyance.
- *RM2017-3 Review of Market-Dominant Ratemaking System (10-Year Review)*: The Commission has taken no action since the completion of the comment period in April 2018. In its comments in the Annual Compliance Review process (see below), NPPC addressed certain issues that also were relevant to the 10-year review.

The proceeding remains pending at the Commission.
- *2018 Annual Compliance Review*: NPPC filed comments (February 14, 2019) on the Postal Service's Annual Compliance Report for FY 2017. The comments focused on the Postal Service's failure to meet its service performance goals for First-Class Mail quality and that large business mailers have lower customer satisfaction than other mailers. The Commission acknowledged these concerns and ordered the Postal Service to develop a detailed plan to improve First-Class Mail service performance.
- *RM2018-11 Regulation of Mail Preparation Changes*: NPPC filed comments (October 15, 2018) in response to the Commission's request for suggestions how to draft regulations to ensure that the Postal Service properly accounts for the rate effects of mail preparation changes. NPPC noted that the Court of Appeals had twice affirmed the

Commission's authority over such changes and suggested that the Commission consider adapting the existing standard for *de minimis* rate changes for this purpose. The Commission terminated this proceeding in June 2019, stating that because the issue has arisen so infrequently it was exercising discretion not to propose rules. Consistent with NPPC's position, the Commission stated that it retains authority to regulate mail preparation changes as "changes in rates" under the price cap.

- *RM2019-2 Ratemaking Procedures for Inbound Letter Post and Related Services*: NPPC filed comments (November 27, 2018) opposing the Postal Service's request for expedition in this proceeding, and substantive comments (December 20, 2018). NPPC's comments, filed jointly with the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement, opposed the Postal Service's request for the removal of market-dominant price cap regulation from Inbound Letter Post. The Postal Service's request was based on the United States' announced intent to withdraw from the Universal Postal Union. The comments pointed out that the Postal Service would have ample authority under the existing price cap to set ILP rates at compensatory levels. The comments also pointed out that other First-Class Mail has cross-subsidized ILP for years, and that any removal of price cap regulation should be accompanied by an adjustment to the cap to eliminate the current subsidy.
The Commission rejected the Postal Service's request, consistent with NPPC's position.
- *RM2019-3 Regulations Concerning Classification Changes that Modify Product Lists*: NPPC filed comments (April 5, 2019), jointly with the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement, on the Commission's Advance Notice of Proposed Rulemaking asking whether it should require the Postal Service to make additional showings when changing size and weight classifications that would, in effect, add, remove or transfer products between the Market-Dominant and Competitive categories. The comments urged the Commission to review such proposals closely in order to protect, and prevent evasions of, the statutory price cap on Market-Dominant products.

Consistent with NPPC's position, the Commission adopted rules in June 2019 that require the Postal Service to address the likely impact of such classification changes on users and competitors of the product, and how such changes are consistent with the policies and criteria of the law.

U.S. POSTAL SERVICE

In 2019, 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 2019
- Raised and pursued concerns about rate increases, both CPI and the rate system review, and their execution directly with the USPS executive leadership team
 - i. Encouraged continued innovation among Promotions
- Expressed continued concerns – and support for the concepts -- re Informed Visibility, Informed Delivery and other programs;
 - i. We have maintained a persistent focus on cybersecurity, discussing it multiple times with USPS CISO Greg Crabb and others on the leadership team as a general matter, and in particular with respect to Informed Delivery
 - ii. We have pushed for formation of an MTAC Task Team to address digital security issues mutually with USPS on a routine basis
- Maintained consistent contact with the USPS Inspector General over a number of key issues
 - i. Participated in multiple forums and studies conducted by the IG;
- Full MTAC participation, with our enhanced team building on the able efforts of their predecessors across a broad range of working groups, user groups and MTAC leadership.
- Participated in bimonthly association executive meetings with PMG and senior staff that ranged through USPS initiatives on the 10-Year Plan, current financial projections, service, legislative status and coordination, and more, and provided serious opportunity for discussion and feedback
- Conducted NPPC-only webinars on important topics, such as the Report of the President’s Task Force, the impact of privacy legislation in California and elsewhere on mailers, and cybersecurity; 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 – the ten-year review, 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 II of the Commission’s Ten-Year Review of the rate and classification setting system were the subjects of discussion. 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, Postal Governor Dave Williams, and several USPS senior executives, such as CMSO Jakki Strako, CFO Joe Corbett, CHRO Isaac Cronkhite, and VPs Kevin McAdams, Kelly Sigmon, Gregg Crabb and Sharon Owens.
- The Inspector General of USPS
- PRC Chairman Robert Taub, and Commissioners Mark Acton and Michael Kubayanda
- Prominent postal staff from Capitol Hill; and
- Experienced private sector speakers, such as Pierce Myers, EVP of the Parcel Shippers Assn.

A Brief Look Forward to 2020

NPPC will move ahead with its efforts on priority issues, including responding as appropriate to the outcome 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.