

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

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

BRIEF OF THE NATIONAL POSTAL POLICY COUNCIL

June 21, 2021

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The National Postal Policy Council (“NPPC”), pursuant to §3020.123(g) of the Commission’s rules of practice, respectfully submits this brief on the Postal Service’s plan to degrade service standards for First-Class Mail.

SUMMARY AND STATEMENT OF THE CASE

The Postal Service’s proposal to diminish the importance and service provided to First-Class Mail is inconsistent with the Postal Accountability and Enhancement Act (“PAEA”), which places a higher priority for treatment of First-Class Mail and Periodicals than does the proposal under consideration here. The combination of service degradation and shocking rate increases (in Docket No. R2021-2) will surely accelerate First-Class Mailers leaving the system, all for what are surprisingly modest cost savings for an organization the size of the Postal Service.

This proposal comes at a time when the Postal Service expects First-Class Mail volume to decline for at least the next ten years. Tr. 124-125

(Monteith); Tr. 419 (Cintron).¹ But instead of trying to stem or reverse this decline directly by proactively enhancing the value proposition of First-Class Mail by improving service and reducing rates, the Postal Service plans simply to repeat the failed approaches of the past decade. Charging more while providing less does not enhance the value proposition of First-Class Mail.² Indeed, the Postal Service apparently has not even considered the combined effects of the two. Tr. 125 (Monteith). Instead, the Postal Service has offered an untested estimate of the volume losses that the service standard reductions would cause, one that did not take the Docket No. R2021-2 rate changes into account.

Had the Postal Service surveyed NPPC members, it would have found a strong preference for reliable rapid delivery at lower rates. Instead, the Postal Service did not even consider, much less propose, any rate design proposal to address the concerns of the First-Class Mailers whose service it is degrading.

Furthermore, the Postal Service provided no indication as to how it would inform the vast majority of First-Class mailers of the reduced standards. And it appears utterly unconcerned about the significant costs it would impose on both large commercial mailers and remittance mailers.

One reasonably might expect that a plan to inflict such dramatic consequences on its most profitable mailers would, at least, offer a significant payoff to the Postal Service in return. Yet the financial “improvement” to the

¹ It is useful to note that mail has shown distinct signs of rebounding from pandemic lows over the past three months. This trend runs counter to any assumption that mail will simply decline over the next ten years, which is a premature assumption at best.

² NPPC submits that the Postal Service would be more likely to benefit from the example of the METRO system, which is going to reduce rates and increase the speed of service to attract customers. See <https://www.washingtonpost.com/transportation/2021/06/10/metro-fares-service/>.

Postal Service is astonishingly minimal. The Postal Service's own estimate (which in past cases have materially overestimated the actual cost savings it experienced) is that the net effect of the service standard degradation would be an annual increase in net income of \$169.5 million. USPS-T-2 at 14 (Whiteman) (revised June 2, 2021).³ That equates to *only 0.23 percent* of the Postal Service's annual \$73.1 billion in revenues. The Postal Service has not explained why such a tiny savings justifies such a major significant change.

And the prospect for remittance mail makes even less sense. While creating grave risks to remittance mailers of loss of coverage on insurance policies, late payment fees, and the like – not to mention the operational costs imposed on commercial mailers that receive remittance mail -- the Postal Service expects to save only *\$8 million* (0.01 percent of the Postal Service's annual revenues) from those cutbacks. What's more, the proposal appears unaccompanied by any plan to inform the millions of remittance mailers of the changes.

Finally, the Service conceived this plan in secret, and has given no sign that it might adjust its plan in response to mailer concerns or to the Commission's recommendations in its forthcoming advisory opinion.

In sum, the Postal Service's proposal to degrade First-Class Mail service:

- Is inconsistent with the statutory requirement, as interpreted by this Commission, that First-Class Mail delivery should be as fast as practicable;

³ A major factor is the loss of contribution due to mail abandoning the system in the amount of -\$110.1 million. USPS-T-4 at 6 (Monteith) (errata filed May 26, 2021). Cost reduction alone accounts for \$279.6 million in annual savings. NPPC/USPS-T2-1 (Whiteman).

- Will only accelerate declines in First-Class Mail volume;
- Assumes cost savings that experience suggests may not be achieved; and
- Offers no options for First-Class Mailers that could offset the negative effects of the service degradation.

I. THE POSTAL SERVICE’S PLAN TO DEGRADE FIRST-CLASS SERVICE FUNDAMENTALLY DEPARTS FROM ITS STATUTORY MANDATE

The service standard changes, and particularly when viewed in context of the 10-Year Strategic Plan, constitute a fundamental departure by the Postal Service from its statutory mandate.

A. The Postal Law Prioritizes First-Class Mail As A Fundamental Service to the People

The fundamental policy of the PAEA, 39 U.S.C. §101(a), provides:

The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.

39 U.S.C. 101(a).⁴ Section 101(e) more specifically provides: “[i]n determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” Of particular relevance to this case, Congress specifically focused on postal transportation in Section

⁴ Section 3691, which governs service standards, requires consideration of “the policies of this title,” which certainly include Section 101.

101(f), directing the Postal Service, when selecting modes of transportation, to “give highest consideration to the prompt and economical delivery of all mail.”

The planned service degradations In this proceeding are concededly not driven by mailer needs; they are driven by transportation cost considerations. Tr. 88 (Monteith). Unsurprisingly, the Postal Service therefore downplays the primacy of speed, contending that mailers generally prefer reliability and that the planned changes would improve reliability.

This is not new. The Postal Service advanced essentially the same argument in Docket No. C2001-3, arguing that its realignment efforts intended to improve the consistency and reliability of First-Class Mail delivery through reduced reliance on air transportation. See “Commission Report Complaint of First-Class Mail Standards Service,” App. 1 at 3, *Complaint on First-Class Mail Standards*, Docket No. C2001-3 (April 17, 2006). Then, as here, the Postal Service sought to minimize the use of air transportation in order to improve its consistency of service.

The Commission, however, found that slowing First-Class Mail delivery in exchange for more reliability was problematic under the PAEA. In particular, it rejected the notion that “important letter mail” in Section 101(e) “was simply to be somewhat better than delivery of other mail, such as Standard Mail.”

Commission Report Complaint of First-Class Mail Standards Service, App. A at 8. The Commission concluded that this position “largely reads out of the statute the explicit statement that the ‘highest consideration’ was to be given to expeditious collection, transportation and delivery.” *Id.* Accordingly, the

Commission rejected the notion that “any degree of preference, relative to other classes, is acceptable,” holding instead that “while First-Class Mail delivery need not be the “best possible” delivery, it should be as fast as practicable.” *Id.*

The Commission recognized that service at any cost was not required, noting that “Congress expected that the Service would have to make tradeoffs in selecting transportation.” *Id.* at 9. However, the Commission noted that the next sentence in the statute “clearly states ‘that “programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.’” *Id.* The Commission thereupon concluded “that Congress generally considered “faster” delivery to be “better” delivery.” *Id.*

And in Docket No. N2012-1 the Service again argued that service degradations would improve reliability and save money. But reliability remained poor, and the Postal Service did not achieve the anticipated cost savings although the reduced service has remained in effect until today.

The proposed service degradations that are the focus of this case are not consistent with Congress’s policy. Certainly, this proposal is not driven by a desire to *increase* First-Class Mail service speed.⁵ Instead, the reduction in service standards was initiated by a desire to transport more mail by surface rather than by air. MH/USPS-T2-1 (Cintron). And when these changes are viewed within the context of the Postal Service’s recently released 10-Year

⁵ In an era when people communicate almost instantly by email and text, and expect packages to arrive within hours of ordering, one might expect the Postal Service would consider increasing delivery speed in order to remain relevant.

Strategic Plan, it is clear that the Postal Service is relegating First-Class Mail to a lesser status than is required by Section 101(a).⁶

B. Degrading Service Standards Will Further Reduce First-Class Mail Volume

The Postal Service grudgingly concedes that service downgrades will reduce First-Class Mail volume even beyond the declines already anticipated. See USPS-T-5 at 13 & 15 (Thress). NPPC believes that the Thress testimony has underestimated the volume effect of the service degradation. But there is no disagreement that First-Class Mail volume is expected to decline under both current and planned postal policies.

However, the record does not establish the likely amount of the volume decline under the proposed standards. In Docket No. N2012-1, the Commission observed that the completion of the first phase of the Service's Network Rationalization initiative would provide the Service with a "unique opportunity to study the actual effects of reduced service on mailing behavior." *Advisory Opinion on Mail Processing Network Rationalization Service Changes*, Docket No. N2012-1, at 125 (Sept. 28, 2012). The Commission said that that service reduction "could provide the Postal Service with the kind of historical data needed to undertake an econometric analysis of the relationship between speed of delivery and mailing behavior." *Id.* at 70.

⁶ E.g., *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, at 2-3 & 22-23.

Unfortunately, the Postal Service never conducted such a study. NPPC/USPS-T5-4 (Cintron). Thus, it missed an excellent opportunity to learn about the real-world effects of service reductions on mail demand.

Instead, the Postal Service relies upon an econometric analysis prepared by witness Thress specifically for this case. See USPS-T-5 (Thress). That analysis builds upon the demand models that the Postal Service has regularly filed with the Commission for years, but for this case added a new factor for days of delivery. It is unclear how much confidence should be placed on this analysis.

First, this is the first occasion on which the “days to delivery” variable has been used in the model. As such, it has not yet had the test of time.

Second, mailers’ perceptions of delivery times may fundamentally affect their demand for postal services, and that some portion of current electronic diversion is due to dissatisfaction with delivery speed. *Cf.* PostCom/USPS-T2-2(b) (Owens) (stating that the Postal Service has not examined to what degree the failure to meet service performance targets has contributed to the decline in Marketing Mail); *see also* MH/USPS-T1-17(a) (Monteith) (“While service performance may influence customer satisfaction with First-Class Mail, the primary driver of First-Class Mail revenue loss is overwhelming digital substitution”). Mr. Thress conceded that isolating the effects of variables that may change simultaneously can be difficult, although he believes his time trends for electronic diversion may do so. See NPPC/USPS-T5-1.

Third, the Thress analysis did not consider the combined effects of the service downgrade and the very large price increases recently announced in

Docket No. R2021-2 that are scheduled to take effect just as the service changes begin to be implemented.⁷ And Mr. Monteith testified during the hearing that the Service has not calculated the cumulative volume effects of the service degradation and rate increases. Consequently, it is unlikely that the actual effect of the service degradations on letter demand will be known.

C. The Proposal Offers First-Class Mailers Desiring Faster Service No Real Option

Although the Postal Service recognizes that reducing service speed while raising rates will push mail out, nothing in the proposed service changes, Docket No. R2021-2, or the 10 Year Strategic Plan offers *anything* to make First-Class Mail more attractive.

Postal Service witnesses claim that these changes and the 10-year Plan will “strengthen the value of mail.” NPPC/USPS-T403 (Monteith). Notably, they do not mention the punitive rate increases being proposed in Docket No. R2021-2 that would take effect at roughly the same time as these changes. The fact is that nothing in the plan offers any improvement in service for Presort or Single-Piece mailers beyond the Service’s hope that they would find value in consistently slower delivery at significantly higher prices. Nowhere does it appear that the Postal Service has faced the basic problem that slower service and higher rates make mail a less valuable option in today’s communications marketplace. Instead, it contends that promotions and incentives – however

⁷ Tr. 125 (Monteith). NPPC notes that portions of the 10-Year Strategic Plan attempt to account for both the R2021-2 rate increases and the service standard changes. See SH/USPS-1 & 2 (Owens).

useful on the margins – somehow can offset deteriorating service and higher prices. See NPPC/USPS-T4-3 (Monteith).

In particular, given that the Postal Service is reducing service standards for mail that travels longer distances, one reasonably might expect it to offer to mailers desiring faster service an offsetting alternative of incentives for destination entry. However, the Postal Service is not proposing a dropship discount for First-Class Mail in this proceeding. See PR/USPS-T1-3(b) (Owens); NPPC/USPS-T4-1 (Monteith); PR/USPS-T1-3 (Cintron).⁸ This omission contrasts unfavorably with the destination entry discounts in USPS Marketing Mail, which provide marketing mailers options to obtain faster service by taking on transportation costs themselves. Indeed, the Service did not consider modifying *any* existing, or creating *any* new, First-Class Mail products to stem the declining volumes. See GCA/USPS-T1-2(b) (Cintron)

Neither did the Postal Service consider the costs that adjusting production or mailing systems would impose on mailers to alleviate the impacts of these changes. Tr. 112 (Monteith). This is yet another occasion in which the Postal Service intends to impose additional costs on mailers, raising the effective cost of using the mail as truly as do rate increases, and do nothing to offset that higher cost to its customers.

⁸ Mr. Monteith mentions various options for mailers to enter their mail more deeply into the system. See USPS-T-4 at 15 & NPPC/USPS-T4-1. None of these, however, includes a financial incentive to offset the extra costs that mailers incur (and that the Postal Service avoids) when they dropship. And his reference to First-Class mailers shifting to Standard Mail in response to a previous service degradation (Tr. 89 & 111) overlooks that those mailers exchanged slower service for *lower* rates—a far cry from the much higher rates proposed in Docket No. R2021-2 scheduled to take effect almost simultaneously with these service changes.

Nor, as discussed more below, does the plan offer anything for remittance mailers. Mr. Monteith cited an Office of the Inspector General report stating that 71 percent of responding Single-Piece mailers may already expect mail to take seven days. See USPS-T-4 at 19-20. Although the Service is unaware of any corroborating information that would corroborate that finding (PR/USPS-T4-3 [Monteith]), if true that finding suggests that the mailing public has little knowledge of today's service standards, or little belief in them, or both.

First-Class mailers have seen this story before. The Postal Service has reduced First-Class Mail service standards before, most recently in Docket No. N2012-1. It has modified business rules. See NPPC/USPS-T1-1 (Cintron). Yet the Postal Service has consistently failed to meet even those slower service standards.

And that consistent failure has occurred despite significant declines in First-Class Mail and other letter volume.⁹ One reasonably may wonder why less volume has made it harder for the Postal Service to meet service standards?¹⁰

There is no assurance that this is the last service degradation. Neither the current network nor the planned revised network is optimized for any particular volume of First-Class Mail. See NPPC/USPS-T1-3 & 4 (Cintron). If the envisioned cost savings or greater consistency fail to materialize, there is no Plan B. Tr. 416-419 (Cintron). On the contrary, there is every reason to expect that

⁹ The Postal Service admits that although declining volumes reduce the revenue available to finance the system, they do not affect the capability to *meet* standards. APWU/USPS-T1-1 (Cintron).

¹⁰ The Postal Service partly attributes this to increased package volumes. MH/USPS-T1-13 (Cintron). This is causing the Postal Service to convert Network Distribution Centers to packages while re-directing letters to PD&Cs and STCs. SH/USPS-T1-7 (Cintron).

the Postal Service will return with yet another plan to slow service further in the name of greater consistency. Here, the Postal Service is cutting service to save money; not investing in capital improvements to improve First-Class Mail and Periodicals delivery. That the Postal Service's 10-year Strategic Plan expects continued declines in First-Class Mail volume, and presumably all letter mail volume as well, in the years to come provides reason to fear that in years hence the Service will once again propose to cut service.

In its Annual Compliance Report for Fiscal Year 2018, at page 47, the Postal Service stated:

“Though its targets are aggressive, the Postal Service does not accept declines in performance as a matter of course. To the contrary, the Postal Service is seeking to improve its performance in all categories moving forward on a continuous basis.”

Unfortunately, only a few years later, the Postal Service apparently now has decided to “accept declines in performance.” In 1924, the Postal Service could deliver a letter from New York to San Francisco by air in 1 day, 10 hours, and 20 minutes. *The United States Postal Service: An American History 1775 to 2006*, at 31. At a time when the Amazon effect is teaching the population to expect delivery almost immediately, the proposal in this proceeding would go the other way, further marginalizing the Postal Service in the nation's communications infrastructure.

II. HISTORY SUGGESTS THAT THE POSTAL SERVICE MAY NOT REALIZE EVEN THE RELATIVELY SMALL COST SAVINGS IT PROJECTS

As Chairman Kubayanda observed during the June 9 hearing, the Postal Service reduced service standards in the Docket No. N2012-1 Network

Rationalization proceeding accompanied with an expectation that it would experience substantial cost savings. Tr. 451. Pursuant to that plan, the Postal Service eliminated overnight service for Single-Piece First-Class Mail, changed the critical entry time for overnight First-Class Presort Mail, and shifted much other mail from a two-day to a three-day service standard. The plan was intended to adjust mail processing capacity to the declining mail volume by closing some plants and expanding operational windows.

The Commission's advisory opinion stated that the Service would achieve fewer cost savings than it expected. *Advisory Opinion on Mail Processing Network Rationalization*, Docket No. N2012-2, at 90 (Sept. 28, 2012). As it turned out, the Postal Service's Inspector General found that not only did the Service experience unexpected and serious service issues, but that it did not achieve most of the cost savings. *See Mail Processing and Transportation Operational Changes*, USPS OIG Report No. NO-AR-16-009, at 1-2 (Sept. 2, 2016). In particular, the Inspector General found that management could find evidence that it had achieved only 10 percent of the projected annual savings presented to the Postal Regulatory Commission in 2011 of over \$805.5 million. *Id.* at 2; *see also Audit Report: Operational Window Change Savings*, USPS OIG Report No. NO-AR-19-001 (Oct. 15, 2018).

There is a non-negligible risk that the Postal Service might fail to capture the expected cost savings this time as well. Notably, the Postal Service did not conduct operational or pilot tests of the changes. *See PR/USPS-T1-2 (Cintron)*. It did not, on the ground that the current standards already are based on time

and distance and are well understood. *Id.* And the Postal Service apparently has no contingency plans in place, due to its belief that it can simply leverage its existing infrastructure. Tr. 411-412 & 416-417 (Cintron).

Maybe. But the Postal Service intends to implement these changes all at once. Tr. 429 (Cintron). Hiccups are to be expected. And the experience of the disruptions caused by the service directives issued by the Postmaster General in the summer of 2020 teaches that big changes can cause unexpected big problems. Can the Commission reasonably have confidence that these service changes can be implemented at the beginning of the busiest mailing quarter without a hitch, without unexpected delays, and in a way that enables the Postal Service to save the \$281 million in costs it anticipates? The Postal Service has not, in the past, demonstrated an ability to do so.

III. THE SERVICE DEGRADATION WILL IMPOSE SUBSTANTIAL HARM ON REMITTANCE MAILERS WHILE ACHIEVING ONLY TRIVIAL COST SAVINGS

The Postal Service states that the changes would shift 15 percent of remittance mail volume from air to surface transportation. NPPC/USPS-T1-6 (Cintron). Of that volume, 47 percent would have service degraded by the change). *Id.* Some remittance mail that currently receives better service than the standard requires would experience more drastic delays. PostCom/USPS-T1-4(b) (Cintron). The Postal Service apparently conducted no research or survey of remittance mailers to determine the effect of these service

degradations,¹¹ nor has it estimated the costs of the service degradation to remittance mailers. See PostCom/USPS-T1-3(c) (Cintron).

The record indicates that retaining air transportation for remittance mail would reduce the Postal Service's projected savings by a mere \$8 million per year. PostCom/USPS-T1-3 (Cintron). That is roughly 0.01 percent of the Postal Service's annual revenues. There is no indication in the record that the Postal Service has given *any* consideration to whether \$8 million in cost savings justifies the costs and burdens that the service degradations will impose on remittance mailers.

The record provides reason to expect that slower service will impose substantial harm on affected remittance mailers. Some of these were described by APWU witness DeMatteo (at 6), who cited individuals' concerns "about having no other means to pay bills, receive checks, or conduct business. Late fees, canceled policies and bounced checks would all mean additional financial cost born by the household mailer." Those late fees and canceled policies impose costs directly on individuals, while creating operational headaches for the businesses, such as banks and insurance companies, that interact daily with individuals and families. Many of the Statements of Position filed by individuals in this docket attest to their concerns that remittance delays cause them to incur late-payment penalties. See, e.g., *Statement of Position by Dr. G.P.A. Rainer*; see also *Statement of Position of Amanda R. Masterson*. Indeed, the Maryland

¹¹ Such a survey could also have considered the effect on online and other small businesses doing regional or nationwide transactions, for which prompt and quickly delivered remittances can be vital to their businesses.

Insurance Commissioner earlier this year encouraged insurers, health maintenance organization, and similar businesses to use electronic delivery of notices and bills to supplement required paper mailings.¹²

The Postal Service believes that “Informing retail customers about the service standards changes will materially mitigate that ‘harm’ by allowing retail customers to make informed decisions about their mailings, including placing letters and flats affected by the service standard change in the mail earlier to allow more time for delivery.” MH/USPS-T1-15(b) (Monteith). But the record contains no evidence of an actual plan addressing how the Postal Service intends to inform retail individuals of the new standard or reassure them that their mail will be delivered.

Instead, the only Postal Service outreach that appears in the record has been confined to large mailers. Its witnesses’ responses uniformly refer to MTAC and other industry outreach. See POIR No. 1, Q31 (Monteith); NPPC/USPS-T4-2 (Monteith) (mentioning Remittance Mail MTAC User Group); MH/USPS-T1-1 (Cintron) (stating that USPS first introduced the service changes in its pre-filing conference, then to 600 persons at MTAC); PR/USPS-T4-3 (Monteith). NPPC certainly agrees that MTAC offers an avenue for informing active industry participants and appreciates the Postal Service’s contribution in that forum. But presentations to MTAC do not inform household mailers of these changes.

¹² See Maryland Insurance Commission, Bulletin 21-08 (Mar. 5, 2021).

MTAC participants prepare the return envelopes used by their customers to remit payments, but those are dropped in the mailbox by their individual customers.¹³

Household remittance mailers do not participate in MTAC or Postal Customer Councils, and there is no evidence in the record of how often they consult the Postal Service's website for service information. Service standards "are the expectation communicated to the public." NNA/USPS-T4-1 (Cintron). But the record does not indicate how the Postal Service will communicate the new standards to the public.

IV. CONCLUSION

The National Postal Policy Council does not believe that Congress intended the Postal Service to become a marginal player with a diminishing presence in the communications marketplace. But the proposal in this proceeding, not to mention the enormous rate increases now pending in Docket No. R2021-2, are difficult to square with Section 101. The Postal Service is planning to treat its best and most profitable customers to both degraded service and significantly higher rates. No wonder the Service estimates that mail will decline some 40 percent over the next ten years; with these companion changes, that estimate would be a self-fulfilling prophecy.

¹³ Perhaps the Postal Service is assuming that commercial mailers will assume the burden of delivering the bad news about reduced service to their customers instead of shouldering the responsibility to do so itself.

NPPC respectfully urges the Commission to consider these views in preparing its Advisory Opinion.

Respectfully submitted,

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