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Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES	Docket No. R2013-11

COMMENTS OF THE NATIONAL POSTAL MAIL HANDLERS UNION IN SUPPORT OF POSTAL SERVICE REQUEST FOR RATE ADJUSTMENT

The National Postal Mail Handlers Union (NPMHU) files these Comments in support of the Postal Service's Renewed Exigent Request for a Rate Adjustment due to the constellation of extraordinary or exceptional economic circumstances collectively referred to as the "Great Recession." As the Postal Service points out in its Request, the Commission has already found that the Great Recession constitutes an extraordinary or exceptional circumstance within the meaning of the applicable statute, 39 U.S.C. § 3622(d)(1)(E), and therefore the only issues to be decided in this proceeding are: (1) whether the approximately 4.3% rate adjustment sought by the Postal Service is to compensate for losses "due to" the Great Recession; and (2) whether this adjustment is otherwise "reasonable and equitable and necessary to enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States," *id.*

I. The Postal Service Has Demonstrated Adequately that the Proposed Adjustment Does Not Exceed the Net Adverse Financial Impact of the Great Recession

The Commission has stated that a rate adjustment is “due to” exigent circumstances where the adjustments “compensate for the net adverse financial impact of the exigent circumstances.” Order Resolving Issues on Remand, Docket No. R2010-4R at 2. The Commission further explained that the Postal Service need not “quantify such impact with absolute precision,” but must justify itself “through supportable methods” to demonstrate that the adjustment “does not exceed the net adverse financial impact of the exigent circumstances.” *Id*. Here, the Postal Service has done precisely that, presenting expert testimony that the Great Recession caused contribution losses of $6.65 billion *in fiscal year 2012 alone*, while conservatively seeking a rate adjustment that would result in only $1.87 billion in additional annual contributions.

Some parties participating in these proceedings have expressed skepticism regarding the Postal Service’s econometric evidence, suggesting that electronic diversion accounts for a greater proportion of contribution losses than calculated by Postal Service witness Thomas Thress. Although these criticisms may nibble at the edges of witness Thress’s quantification of losses, there is nothing to suggest that his calculations are erroneous to the magnitude necessary to bring the losses attributable to the Great Recession below the $1.87 billion rate adjustment sought by the Postal Service here.[1] And, the Commission has made clear that the Postal Service need not

[1] Indeed, adding together the contribution losses for each year of the Great Recession, as found in Table 2 of the Postal Service’s Renewed Request at page 11, the cumulative total of contribution losses through Fiscal Year 2012 attributable to the Great Recession is well over $20 billion. The Postal Service here seeks to recover only a very small portion of that—less than 10%—through its annual adjusted rate.

prove its case with "absolute precision," so long as it is plain that the adjustment sought does not exceed the losses attributable to the extraordinary or exceptional circumstances.

Moreover, it should be noted that, despite the much vaunted diversion of mail to electronic alternatives, the Postal Service's total mail volume continued to grow at fairly steady rates long after e-mail and electronic bill payment became wide-spread, with USPS volumes hitting an all-time high in 2006–immediately before the start of Great Recession. As witness Thress testified, population and positive trends increased mail volume by five billion pieces over the course of 2008 to 2012 (Resp. to POIR No. 1, Q1(b)), which offset the electronic diversion to some degree and helps explain why the lost volume attributable to the Great Recession is such a large percentage of the total volume lost. If there were any doubt that, starting in 2007, it was the Great Recession that caused mail volumes to drop precipitously, that doubt should be laid to rest by the line graphs supplied by witness Thress in response to POIR No. 6, Question 1. These line graphs starkly illustrate the decline in First-Class Mail as electronic alternatives grew in popularity—a slow and steady decline that suddenly accelerated rapidly at the time the Great Recession hit. Through this line graph, witness Thress has demonstrated that his projections of what First-Class mail volume would have been, absent the Great Recession (as indicated by the red line in the graphs), are well in line with the steady decline in volume that preceded the economic collapse (as indicated by the blue line).

Witness Thress's econometric analysis is confirmed by the fact that the declining mail volume has been mirrored by declines outside the postal environment, notably advertising expenditures, which declined by almost precisely the same percentage as did Standard Mail revenue (16%). Resp. to POIR No. 1, Q1(c). Similarly, loan accounts have declined by 18% from 2008 to 2012. Resp. to POIR No. 1, Q9(b). These declines—external to the Postal Service—confirm that the volume loss identified by witness Thress is not due to electronic diversion, but rather is due to the economic impact of the Great Recession, as this business leaves the marketplace all together. Indeed, Standard Mail—which has never been subject to electronic diversion (as evidenced by its steadily growth in the post-electronic, but pre-recession era)—accounts for more than half of the lost volume that the Postal Service attributes to the Great Recession (that is, a decrease in 29 billion pieces out of a total decrease of 53.5 billion in all Market-Dominant mail). *See* Thress Statement at 8, Table 2; Library Reference R2010-4R-11.

Indeed, to the extent that the Great Recession accelerated diversion to electronic alternatives because consumers were looking for cheaper alternatives (for example, individuals who send email holiday greetings, rather than traditional cards, because their personal finances are constrained by the reality of the recession), that diversion is indubitably "due to" the Great Recession under any common sense understanding of that circumstance.

Finally, the Commission and certain parties have expressed some concern regarding the fact that the Postal Service has not identified a date on which this rate adjustment would terminate, raising the specter that the contribution gained through the adjustment might at some point in the future out-pace the losses due to the Great Recession. This concern need not doom the Postal Service's request, however. First, even if all the volume lost due to the Great Recession were to return tomorrow, it would still take approximately three-and-a-half years for the proposed $1.87 billion annual adjustment to make up for the $6.65 billion contribution loss attributable to FY12 alone—and more than ten years to make up the cumulative contribution loss attributable to the Great Recession to date. And, in the meantime, the Commission will have the opportunity to conduct a thorough review of the rate system, including any exigent adjustment implemented pursuant to this docket, in accordance with the terms of 39 U.S.C. § 3622(d)(3). The question whether or not the losses from the Great Recession have been fully recovered will be an appropriate issue for Commission consideration starting in December 2016, when the Commission is required to "review the system for regulating rates and classes for market-dominant products" and is authorized to make "modification[s] or adopt [an] alternative system." The Commission can only benefit from the additional perspective that the intervening time will provide on the full impact of the Great Recession.

II. The Adjustment is Necessary, Under the Best Practices of Honest, Efficient, and Economical Management, to Maintain and Continue the Development of Postal Services

Having shown that the extraordinary circumstances posed by the Great Recession have caused losses in excess of the adjustment sought here, the second prong of the statutory inquiry essentially asks whether the adjustment could be avoided through different management practices, without unduly sacrificing the mail service provided to the American public. Here, the answer is plainly no. To suggest, as Senator Susan Collins does in her October 18, 2013 letter to the Commission, that the rate adjustment is "an attempt at an easy way out" does a grave disservice to the difficult sacrifices made by the Postal Service and its employees over the past five years. Nothing about the economic reversals related to the Great Recession are "easy" —least of all the position in which the Postal Service has been placed, as it must maintain mandated service levels to an ever-expanding population while its revenues, like those in most sectors of the economy, have sharply declined. Faced with these realities, the Postal Service management has cut costs again and again in an attempt to avoid rate adjustments beyond the rate of inflation.

As Postal Service witness Dave Williams testified during the 2012 Commission hearings regarding redesign of the mail processing network, the fat has long since been trimmed from the system, and the Postal Service is cutting away muscle. Docket R2012-1, Tr. 313:3-12. Indeed, the fact that the Postal Service is proposing to end the overnight service standard—a change condoned by this Commission in Docket R2012-1—in order to make further reductions in its costs, is itself definitive evidence that the Postal Service cannot make up its losses solely through more efficient and economical management, but must either raise rates or cut service yet again.

From 2006 to the present, the Postal Service decreased its career complement by 29%, including a decrease of 17,840 career Mail Handlers.[2] In the last five years alone, work hours attributable to mail processing and to customer service have been cut by 34% and 35%, respectively. POIR 1 at 22. And by next year, the Postal Service has plans to reduce its mail processing facilities down to 250, from 673 facilities in 2006—an

[2] *See* Postal Service Active Employee Statistical Summary (HAT report) PP21, filed with Commission on October 12, 2007 (reporting 603,389 full-time employee; 5,796 part-time regular employees; and 73,081 part-time flexible employees); and Postal Service Active Employee Statistical Summary (HAT report) PP22, filed with the Commission on October 18, 2013 (reporting 466,073 full-time employees; 1,335 part-time regular employees; and 19,324 part-time flexible employees).

astounding 63% decrease in the number of USPS processing facilities. *See* Response to POIR 1 at 23, 24. And yet, from 2006 to 2012, mail volume for Market Dominant mail decreased only 21%,[3] demonstrating that, far from having extra capacity due to the decreased volume, the Postal Service has been aggressively staying ahead of the volume decreases by slashing work hours and facilities by even greater percentages.

The Postal Service's labor unions, moreover, have shared in this sacrifice, well beyond the loss of members. During the last round of national negotiations from 2010 to 2012, each of the unions bargained or arbitrated for contracts that have allowed the Postal Service to replace large numbers of career employees earning full benefits with less costly, non-career employees with flexible hours and limited benefits.

In contrast, during this same time period, the Postal Service's customers have largely been spared this pain, with rate adjustments limited to simple CPI increases. As many of the participants in this proceeding have pointed out, the economy is beginning to recover in many sectors, and it is time for the general public, including commercial mailers, to begin to carry their fair share of the load in ensuring that the Postal Service is able to continue to provide the level of service that the American public wants and rightfully expects.

Respectfully submitted,

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[3]The Postal Service reports total Market Dominant mail volume of 209.68 billion in FY2006, and 165.024 billion in FY2012. Response to POIR No. 5, Excel Spreadsheet, POIR.5.Q.9.ExigentImpact.xls, spreadsheet "Testimony Tables", cells I75, spreadsheet Volume, Column B.

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