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

Notice of Market Dominant Price Adjustment

Docket No. R2020-1

COMMENTS OF THE NATIONAL ASSOCIATION OF PRESORT MAILERS (October 29, 2019)

The National Association of Presort Mailers (NAPM) respectfully submits these comments on the United States Postal Service's Notice of Market Dominant Price Adjustment, R2020-1, dated October 10, 2019.

The NAPM is comprised of mail service providers, mail supply chain vendors and mail owners. Our members interact with tens of thousands of business mail consumers, collecting or producing their mail, then combining mail together to present it as a single mailing to the Postal Service so that the client can receive the benefits of Commercial Mail workshare price discounts and the Postal Service receives the benefit of more profitable, more densely presorted and better quality mail. Collectively, NAPM represents over 45 percent of the total First-Class Mail Presort Letters volume.

The members of NAPM are valued partners with the Postal Service. NAPM members deliver high quality mail to the Postal Service with accurate addresses, high quality data-rich barcodes, with electronic documentation and data, at high-density preparation levels, transported and entered when and where it is most efficient for the Postal Service. We are true partners with the Postal Service: we promote, provide education on, and sell its products, we share the same customers, and like the Postal Service, our business critically depends on keeping mail as a valued and affordable communications medium for consumers.

Times have changed, and mailings have changed. Today mailings are presented to the USPS that are “data-rich” supplying USPS with a new “streamlined mail” flow with information unlike it has ever experienced in the past. This information enables the USPS to not only improve its operational efficiency, but also create innovative “value-add” products like Informed Delivery and mailing “Promotions,” as well as services like Informed Visibility and Secured Destruction. NAPM recommends that it is long overdue for the USPS to change its pricing methodology from past practice to one that represents the pricing efficiency the Commission envisioned when developing the Modern System of Rate Making. We offer our comments not as criticisms, but as truly collaborative business partners with a common business strategy of making mail, and the Postal delivery network, a valuable commodity in facilitating eCommerce and the treasured provider of public service to America that it is today. NAPM believes the time has never been better for these changes, with both the Regulator and Operator with the institutional knowledge, a newly seated Board of Governors with the business knowledge and the mailing supply chain with members such as ours who not only sell its products to tens of thousands of users, but also understand how to make its products work together to give the consumer the best possible service at the most affordable prices. We hope that the Commission and USPS will take the opportunity to heed our recommendations, better embrace our partnership, and work more collaboratively to keep mail in the mail and deliver the value the American public and businesses expect.

NAPM takes exception to several comments provided by the Postal Service in its notice filed in the Docket No R2020-1 Market Dominant Price Change (UNITED STATES POSTAL SERVICE NOTICE OF MARKET-DOMINANT PRICE CHANGE, October 09, 2019), as detailed below. In addition, the USPS has not provided adequate detail regarding how it is using its pricing authority to increase mail volumes, increase operational efficiencies, and achieve financial stability.

NAPM disagrees with the Postal Service's characterization of the findings of the PRC's 10-year review. The Postal Service on page 1, section I in its "Overview of Price Case" states;

> "As detailed in this Notice, the rates are designed to satisfy the standards Congress set forth in section 404(b); the resulting rate design comports with the objectives and factors of section 3622, to the extent possible under the current ratemaking system. In that regard, *the Commission has already found in the Ten Year Review that the current system is unable to achieve the statutory objectives and factors*" [emphasis added][1].

This statement is misleading, not only to the public but to the newly seated Governors on the USPS Board. The Commission found that in many cases the "system" has worked as planned. The Commission also held that in several important respects the Postal Service has not used its pricing authority to maximize incentives to increase pricing and operational efficiency. One of the significant conclusions the Commission found was that;

> "Applying the objectives in conjunction with the others demonstrates that the system was largely successful in achieving the goals related to the structure of the ratemaking system. During the PAEA era, the system achieved a streamlined ratemaking process that reduced administrative burden and increased transparency, allowed the Postal Service pricing

[1] Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, Docket No. RM2017-3 (Dec. 1, 2017), at 5, 275.

flexibility, and achieved rates that were predictable, stable (with regard to timing and magnitude), and just. However, the Commission finds that the market dominant ratemaking system established under section 3622 has not increased pricing efficiency during the PAEA era.[2]"

The Commission further stated:

"In its review of the financial health of the Postal Service, the Commission also finds that while some cost reductions and efficiency gains occurred during the PAEA era, the incentives were not maximized in a way that allowed the Postal Service to achieve financial stability."[3]

"The Commission concludes that the structure of the ratemaking process created by PAEA has worked as intended to create predictably and stably timed price adjustments, reduce the administrative burden by reducing the complexity of rate proceedings, and increase the transparency of the ratemaking process due to the availability of comprehensive and understandable material. With respect to pricing, the Commission concludes that the system has allowed the Postal Service pricing flexibility and achieved rates that are just and predictable and stable in magnitude. However, the Commission finds the system has not resulted in increased pricing efficiency."[4]

"Factor 7 states that consideration should be given to 'the importance of pricing flexibility to encourage increased mail volume and operational efficiency.' 39 U.S.C. § 3622(c)(7). Factor 7 is relevant to pricing flexibility because pricing flexibility may be used for two specific purposes: (1) to encourage increased mail volume; and (2) to increase operational efficiency."[5]

The Commission discussed this more under the financial health section of its report.

"The Commission finds that the Postal Service was able to adjust prices to achieve ECP and did not do so during the PAEA era [emphasis added]. Thus, the Commission concludes that the system did not increase pricing efficiency, as measured by adhering as closely as practicable to ECP, during the PAEA era."[6]

It appears that again, the USPS has filed yet another price change without a hint of effort to try

[2] Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, Docket No. RM2017-3 (Dec. 1, 2017), at 145,146
[3] Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, Docket No. RM2017-3 (Dec. 1, 2017), at 4
[4] page 48
[5] Page 51
[6] page 139

and leverage “pricing efficiency” as the Commission had hoped it might do. What the USPS might define as a multi-year “business strategy,” many others might refer to as a form of insanity (one definition of insanity is to keep doing the same thing over and over expecting different results). NAPM urges the Commission to use its authority to require the Postal Service to use its pricing authority to drive costs out of its operations and retain more efficient and profitable presort mail. The Commission should compel it to do something different than it has for the last ten years and truly apply ECP to improve the rate system’s “pricing efficiency.”

The NAPM believes that the Commission recognized a need to do this when it proposed setting a “passthrough band” establishing both a bottom and top range regarding the workshare costs avoided that should be passed back to the business partners that add so much value and profitability to the mail for the USPS as well as additional value, affordability, and delivery performance for the mail users. Using its pricing authority to increase efficiency and encourage more profitable mail volume is consistent with “best practices of honest, efficient, and economical management” and with the relevant statutory objectives and factors. The NAPM is hopeful that the new Governors will have an opportunity to hear from the industry how it believes the Postal Service’s pricing authority can be better utilized to benefit the postal system. As leaders of private sector companies committed to partnering with the Postal Service, NAPM encourages the Governors to expand the use of worksharing to drive down Postal costs, improve Postal delivery performance, and increase the value of mail to the consumer.

I. The Commission Should Require Better Justification for Proposed Changes in Rates

The Postal Service’s “discussion of new rates” did not provide adequate detail on how the planned price changes are designed to achieve the objectives and properly considered the factors. Rather than explain how the proposed changes meet the objectives and factors, the discussion appears to justify its reasoning for not trying to use the rate making system as intended by stating that the new law somehow is entitling their Governors to not utilize the Objectives and Factors in their decisions but to revert back to some PRA “principles.”

This is perhaps because of the comments the Postal Service made in subsection b;

> “Before discussing the relevant objectives and factors as directed by Rule 3010.12(b)(7), the Postal Service notes that current law limits the scope and relevance of this exercise. Congress did not directly subject the Postal Service’s setting of rates to the objectives and factors in Section 3622; rather, Congress directed the Governors to ensure that “[p]ostal rates and fees [are] reasonable and

equitable and sufficient 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. The Governors must assess and balance those broad and often competing policy criteria, which each tend to point to different outcomes given the complexities of the postal marketplace, and must consider such questions as how best to improve the Postal Service's financial condition (within the confines of a class-level, CPI-based price cap) while avoiding further loss of volume to the alternative communications channels available to mail users.[7]"

NAPM does not dispute the Governors' authority to set rates. But those rates must be approved by the Commission, so the Postal Service must communicate its rationale for the proposed changes in rates, including how the proposed changes meet the applicable Objective and Factors. For example, why is First Class Mail still absorbing over 290% of the institutional "cost" allocations? NAPM does not believe that some sort of "cap-space" rationale necessarily is "justification," especially when far less "efficient" mail is receiving better pricing, instead of using the pricing to drive mail into more efficient and cost-effective mailing preparation and entry channels.

The NAPM appreciates that the Postal Service needs to look out across multiple years in its planning, but we have been unable to locate a multiple year "business strategy" that the Postal Services' pricing efficiency or use of its flexibility is, or has been, driving. If the proposed changes are part of a multi-year strategy, the Postal Service should explain that strategy in its filing and how that strategy meets the statutory objectives and factors. Again, the Postal Service has the prerogative to utilize its "business judgement" in setting rates, but the Commission must exercise its duty to ensure that any "pricing decisions" submitted by the USPS conform with the Laws and the Regulations established.

The NAPM contends that the Postal Service offers no explanation for above-inflation increases in already excessive Presort Mail rates, or for failing to set workshare discounts at efficient levels to utilize the pricing efficiencies enabled by the rate setting system. Therefore; in this instance the Commission should not approve them and send the USPS back to the drawing board to develop and publish a "business strategy" that utilizes its pricing authority to enable the pricing efficiency as the law had intended it to do since 2006.

[7] ibid

II. The USPS Should Better Utilize Its Pricing Flexibility to Drive USPS Efficiency and Profitability

The NAPM is disappointed in the Postal Service's decision to, for another year, not maximize its pricing incentives to drive the most efficient mail preparation and entry behaviors. We are equally perplexed as to the USPS' rationale for some of its pricing decisions in this filing as there is little explanation included in the USPS' notice filing.

The Postal Regulatory Commission (PRC) in its Order 4258 concluded that; "Specifically, the Postal Service *failed to set most workshare discounts in accordance with ECP* [emphasis added] during the 10 years following enactment of the PAEA."[8] The PAEA (Postal and Accountability Enhancement Act) requires the Postal Regulator ensure the Postal Services' pricing efficiency follows certain Objectives in conjunction with certain Factors such as; Objective 1 to "maximize incentives to reduce costs and increase efficiency." Objective 8 to "establish and maintain a just and reasonable schedule for rates and classifications", and Factors such as; "(4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;" "(5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;" "(7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;".

The PRC also stated that; "Workshare discounts set substantially above or substantially below avoided costs are problematic because they send inefficient price signals to mailers and therefore reduce productive efficiency in the postal sector. Specifically, inefficient pricing signals disrupt two sets of incentives — the incentives to the Postal Service to right-size its network and the incentives to mailers to enter volume that best conforms to that network. This disruption may take volume away from the least-cost producer, which may result in less efficient volume and decreased revenue for the Postal Service[9].

Furthermore, in its Order the Commission proposes a solution to address this "failure" by the Postal Service stating:

> "The Commission proposes rules to phase out two practices that harm pricing efficiency: workshare discounts set substantially below avoided costs and workshare discounts set substantially above avoided costs.
>
> Therefore, the proposed rules establish bands—ranges with upper and lower limits—for workshare discount passthroughs. A passthrough must fall within the applicable band to be compliant. All passthroughs that fall outside of the applicable band would be noncompliant,

[8] Order 4258, Docket No. RM2017-3, Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 01, 2017 pg 87
[9] Ibid pg 89-90

subject to a 3-year grace period commencing from the effective date of these rules or when a new workshare discount is established.

The proposed rules promote ECP and help the ratemaking system to maximize incentives to increase efficiency by incentivizing the Postal Service to set workshare discount passthroughs closer to 100 percent in accordance with Objective 1. See 39 U.S.C. 3622(b)(1). Also, consistent with Objective 4 (to allow pricing flexibility), the bands allow the Postal Service discretion to set passthroughs within the applicable band. See 39 U.S.C. 3622(b)(4). The bands also accommodate the concerns related to excessive workshare discounts referenced in the PAEA. See 39 U.S.C. 3622(e)(2). As described below, the proposed upper and lower limits applicable to each band provide a sufficient range for compliant passthroughs to encompass most fluctuations in cost avoidance and mitigate rate shock."[10]

Although many in Industry, including the NAPM, may believe that some of the recommendations provided by the President's Task Force report published in 2018, "United States Postal Service: A Sustainable Path Forward," may be too aggressive at this time, primarily due to the fact the Postal Service failed to use "pricing efficiency" as intended by the PAEA, the Task Force concluded that the USPS must operate in a more cost-efficient manner by increasing "the use of third parties through additional work sharing and the use of third party processing and logistics providers."[11]

The President's task force states in its report:

"In order to move towards a path of sustainability, the USPS must also address its rising labor and operating costs, including capital expenditures. The USPS's operating costs are expected to continue to grow as the country's population expands, new delivery points are added, and as the requirements for package delivery increase. The USPS must pursue new cost-cutting strategies that will enable it to meet the changing realities of its business model. These should include evaluating modifications to delivery processing standards, and the expanded use of private sector partners in areas such as processing and sortation."[12]

"For the USPS to become a sustainable entity, the new business model must permit the USPS to actively contain and reduce its costs as its mail volume declines and as competitive pressures in the package markets dictate. The Task Force believes that the USPS must

[10] Ibid page 93
[11] United States Postal Service: A Sustainable Path Forward Report from the Task Force on the United States Postal System, December 4, 2018 pg 38
[12] Ibid page 5

operate in a more cost-efficient manner by exercising discretion to lower service standards and to increase the use of third parties through additional work sharing and the use of third-party processing and logistics providers."[13]

Third-party providers process and transport mail more efficiently than the USPS. For example, MSPs already: 1) produce (print, manage lists, sort) much of the presort volume down to 3-digit and 5-digit ZIP Codes for the USPS; 2) have numerous facilities that provide downstream printing and processing; 3) use and sometimes manufacture the same equipment to presort mail that the USPS uses to process it; and 4) can acquire trucks and drivers.

The USPS's greatest comparative advantage is in the delivery of letter and flat products at lower costs than their competitors, given the obligation to stop by every mailbox, six days per week. The Task Force recommends that the USPS continue to expand its use of third-party relationships in order to provide services in a more cost-efficient manner (e.g., mid- stream logistics and processing). For example, roughly 85 percent of USPS mail volume already utilizes some level of third-party mid-stream processing and sortation."[14]

Despite these oversight findings and recommendations, the Postal Service again in its pricing structure fails to establish pricing to drive the most efficient and profitable mail preparation and entry behaviors and includes no explanation for its rationale. Workshare mail is not only more profitable for the Postal Service, it also achieves better service performance; provides mail owners access to affordable postal rates, keeping mail in the mail; and in the case of IMb (Intelligent Mail barcode) mail, provides the USPS with the mail data that is the foundation for an ever-growing list of initiatives designed to reduce its costs and increase efficiency as well as add value to mail for end users.

The unreasonableness of the proposed increases is even more evident when one looks at the changes at the rate category level. Within Presort Letters, the largest percentage increases are being imposed on Mixed AADC Automation Letters (2.570 percent) and 5-Digit Automation Letters (2.089 percent).[15] The latter rate category is by far the largest volume product in First-Class Mail (alone more than twice the volume of Single-Piece Letters), and therefore the above-average increases would affect the most volume. Reducing the price differential between 5-digit automation FCM letters and AADC automation FCM letters by $0.001 per piece, for example, reduces the incentive for sortation to 5-digit. Reducing the price differential between the Mixed AADC automation letter price and Presort Machinable

[13] Ibid page 38
[14] Ibid page 52-53
[15] In contrast, the revenue change for Single-Piece Letters and Cards is a *decrease*. *See* CAPCALC-FCM-R2020-1 Tab Percent Change Summary.

letter price by $0.01 per piece significantly reduces the incentive for Mail Service Providers to move machinable letters provided by business customers into at least an automation Mixed AADC sort level (while also applying a data-rich Intelligent Mail barcode to every piece). Some of these price differentials within workshare may seem trivial to the uneducated eye, but for Mail Service Providers (MSPs) whose sole source of income for the work they do comes from the workshare price differentials, they are significant.

These are just two examples of many instances where the Postal Service again has set prices at passthroughs substantially lower than 100 percent. The price for FCM automation 5-digit letters is set at 82.4% passthrough and the price for FCM automation AADC letters is set at 83.3% passthrough. All the FCM automation flats prices are set at 85-86% passthroughs. For Marketing Mail automation AADC Letters, the passthrough is set at 83.3%.

In the view of the NAPM, the USPS decisions to submit a price schedule that sets the passthroughs on some of its most efficient mailing products even lower than the "bands" proposed by the Commission in its Order 4258 where its states; "For all other classes, passthroughs must range between 85 percent and 115 percent."[16] once again demonstrates the USPS' unwillingness, or maybe it's a matter of USPS' "inability" to understand how to achieve the price efficiency of the rate setting system as intended by the PRC when they established it .

These above-CPI increases will only serve to enhance the attractiveness of electronic alternatives and increase the incentive for mailers to shift to them, putting Postal Service volumes and revenues further at risk.

At a time when the USPS is facing increasing financial pressures and its controllable costs are escalating, it is mystifying to see it not utilize the pricing flexibility it has available to drive more profitable mail and cost reduction. The below chart shows the variance in passthroughs over the past 9 years for 5-digit automation letters in FCM and Marketing Mail.

[16] Order 4258, Docket No. RM2017-3, Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 01, 2017 pg 93

Docket	First-Class Mail Presort Letters			Marketing Mail Letters		
	Discount	Cost Avoided	Pass-through	Discount	Cost Avoided	Pass-through
R2020-1	$ 0.028	$ 0.034	82.4%	$ 0.025	$ 0.027	92.6%
R2019-1	$ 0.029	$ 0.032	90.6%	$ 0.025	$ 0.025	100.0%
R2018-1	$ 0.030	$ 0.034	88.2%	$ 0.023	$ 0.026	88.5%
R2017-1	$ 0.030	$ 0.036	83.3%	$ 0.020	$ 0.026	76.9%
R2015-4	$ 0.023	$ 0.031	74.2%	$ 0.019	$ 0.022	86.4%
R2013-10	$ 0.023	$ 0.028	82.1%	$ 0.020	$ 0.020	100.0%
R2013-1	$ 0.024	$ 0.025	96.0%	$ 0.019	$ 0.019	100.0%
R2012-3	$ 0.024	$ 0.026	92.3%	$ 0.018	$ 0.020	90.0%
R2011-2	$ 0.025	$ 0.026	96.2%	$ 0.018	$ 0.020	90.0%

As stated in its joint comments with NPPC and MMA to the PRC's Order 4258 in its 10-year review of the statutory rate system, the PRC has the legal authority to require the use of Efficient Component Pricing (ECP) for workshare discounts. Indeed, the PRC proposed the implementation of workshare "bands" to establish the minimum and maximum passthrough percentages for workshare, as part of Order 4258. As NAPM supported in those comments, the PRC should move to establish workshare bands of between 95 and 105 percent passthrough to promote USPS cost reduction and pricing efficiency. We believe that passthroughs in the 80-85% range as many of the above have been set over the past 9 years, are "substantially" below 100 percent and therefore, at minimum, require the Postal Service to identify and explain them as required by Commission Rule 3010.12(b)(6).

While the Postal Service could be justified in stating that its "flexibility" includes the use of a "rate design is viewed not as a single year snapshot, but rather in terms of a business strategy that navigates the current ratemaking system's significant constraints by executing in steps over multiple years."[17] In looking at the chart on the previous page it would seem that the "business strategy" is comprised of nothing more than just moving the discounts up for several filings and then down for several, or one large drop and then gradually back up. NAPM cannot understand how that strategy has demonstrated any significant

[17] United States Postal Service Notice of Market-Dominant Price Change at 11 (Oct. 9, 2019) ("Notice").

changes over the years. In addition, we cannot even understand since at least 2013 how anything has stabilized long enough to determine if there are any positive impacts, e.g. retain/grow volume, or improved efficiency. Given the "pattern" of a strategy that can be observed from the past price changes, it might even raise doubts that the Postal Service is achieving Objectives 2 and 8 and Factors 6, 7, and 12.

The Commission should use this filing as an opportunity to "strengthen" its recommendations based on its determinations in its 10 year review and reject any prices proposed by the USPS that do not support the pricing efficiencies it intended the rate making system to establish until the USPS is able to provide reasonable rationale supported by the Objectives and Factors as to why it is making those pricing decisions. The Commission needs to help the USPS understand that it needs to take control of its future before supporters of all of the recommendations made by the Task Force take control of it for them. The NAPM as well as many in the industry believe that the partnership with the private sector established by the workshare model can benefit the U.S. far more effectively in support of the post's universal service obligation (USO) than the "privatization" models used in much smaller nations around the world.

III. First-Class Mail Rate Design

Pricing incentives are important to encourage mailers and mail service providers to presort and commingle letters and flats which are more efficient, less costly, and more profitable for the USPS. The NAPM encourages the Postal Service to continue to provide incentives to keep presort mail in the system and protect its more efficient and profitable mail categories.

NAPM supports the Postal Service's proposed use of promotions for 2020 and would hope that the Commission accepts them. Many clients of our members use promotions and we believe that they are at least retaining volume in the mail. As mailer budgets get reduced each year through the use of promotions, many mailers will generate additional mail pieces from the discounts they receive. NAPM believes promotions are supported by Objectives 1, 4, and 5 as well as Factors 4, 7, and 13. NAPM would also like the Commission to encourage USPS to develop a promotion for "Secured Destruction." Incentivizing innovative services like this would be increasing efforts to take costs out of USPS operations.

NAPM also appreciates the below-average increase for 5-Digit letters in Marketing Mail, and the stable rate for Metered Mail. NAPM supports the Postal Service's decision not to increase the current pricing of First-Class Mail Stamped and Metered Letters. The Metered Letters rate serves as the benchmark for calculating the costs avoided by Presort Letters; therefore, a lower Metered Mail price results in lower prices for all Presort Letters. Lower prices will help retain the more profitable Presort Letters volumes.

The NAPM is disappointed to see a further reduction in the First-Class Mail 5-Digit Automation Letters workshare discount, which inhibits mailers and Mail Service Providers from preparing First-Class

Mail in the most efficient way possible – automated 5-digit sortation. We are also disappointed to see the 5-cent increase in the First-Class Mail flats additional ounce price just one year after the USPS reduced the additional ounce price by 6-cents. This sends confusing signals to FCM mail users, and those who may have invested in processes and equipment to support growth in FCM flats over an ounce now will be faced with significantly higher postage prices which can deter use of this mail category. While prices decreased for FCM flats weighing less than an ounce, the predominance of commercial FCM workshare flats handled by the USPS fall into the greater than one-ounce weight category. For these mailers, the price increase can be as high as 13+%, which will drive more FCM flats mail users from using the mail in lieu of electronic alternatives.

As NAPM has stated previously, reductions in workshare discounts discourage Mailing Services Providers (MSP) and mail owners in making investments necessary to leverage newer technologies that improve mail production, preparation, and downstream entry processes that enable the Postal Service to realize the cost cutting and mail retention benefits of workshare. Additionally, these investments enable mailers and MSPs to support, and facilitate the development of Postal Service innovation programs to create added value offerings, improve delivery service, and promote the growth of mail. At a time when First-Class Mail volumes continue to be threatened and businesses have other choices for their communication needs, it is essential that mail remain a cost-effective and viable solution.

IV. Marketing Mail Rate Design

NAPM is disappointed that the Postal Service did not maintain the 100% passthrough for 5-digit Automation Marketing Mail Letters, instead reducing the passthrough to 92.6%. NAPM continues to support passthroughs as close to 100% as possible, to fully reflect the value of the work performed by mailers and Mail Service Providers. NAPM encourages the Postal Service to set workshare discounts equal to 100 percent of the modeled costs avoided wherever possible to maximize incentives for the industry to partner with the Postal Service to reduce costs and improve efficiency.

NAPM is also concerned about the continued reduction of the drop ship discounts for Marketing Mail letters. While we applaud that the discount improved for Marketing Mail flats drop shipped to the DSCF vs. the DNDC or entered at Origin, we are unable to understand the continued reduction of the drop ship discount for Marketing Mail letters drop shipped to the DSCF. Why is the value to drive flats to the more efficient processing entry points greater than that of driving letters to the same more efficient processing centers? For MSPs who provide many collateral services to sell USPS products (mail), service is a critical aspect to "sell" the use of mail to its customers, so these MSPs often have to absorb the costs of the increasing drop shipment prices. The best delivery service is realized through entering the mail further downstream and into the most efficient processing capabilities of the Postal Service, e.g., DSCF. The discounts are now reaching a point where the MSP cannot continue to absorb the cost to ensure entry at the more reliable service entry points. Eventually MSPs will be forced to enter mail further upstream where delivery performance standards are far poorer and performance less reliable… or pass the costs back onto the customer, causing the customer to re-evaluate their marketing programs based on the additional cost to use mail vs. alternatives. Drop shipping to the DNDC would add many days to the service performance and increases the unpredictability and unreliability of service which can negatively impact use of Marketing Mail by end users. Once the customers are not receiving the delivery expectations they are desiring or accustomed to, or if the price to retain the service level is pushed back onto the customer, it will be difficult for the MSP to continue to sell USPS products.

NAPM believes that the USPS should not have reduced the downstream destination discounts and we appreciate that USPS did not push some of them, as directed by the PRC to 100% or less of passthrough. While enough time has not passed from the last reduction in the drop ship discount to know for certain why, some members are beginning to see some shift in mail behaviors for drop ship to DSCF. NAPM advocated for the USPS to not change them. We strongly recommend that the PRC at minimum not reject these USPS proposed changes in the drop ship discount where the USPS did not adjust the reduction the full 10%, but we would prefer and strongly recommend that the Commission allow the USPS to adjust the drop ship discounts back to the 2019 levels to allow Industry the necessary time to understand the mailer's behavior. We certainly believe that the further downstream drop ship discounts should remain at levels that ensure mail will be entered at the most cost effective and service-reliable processing facilities.

V. Streamlined Intelligent Mail Price Incentive

NAPM commends the Postal Service's decision to maintain the existing price incentives for production of streamlined intelligent mail. The IMb Full-Service price incentive continues to help offset the ongoing and increasing costs for Mail Service Providers and others to prepare high value, data-rich, streamlined mail for the USPS. According to data collected from NAPM members when the IMb Full-Service incentive was established, over 90% of the identified costs for Mailers and Mail Service Providers are ***ongoing*** costs to support IMb Full-Service, not one-time initial set up costs. We appreciate the Postal Service's recognition of these ongoing costs in maintaining the IMb Full-Service incentive.

The "data rich" streamlined mailings provided to the USPS through programs such as IMb Full-Service and Seamless Acceptance are the foundation for a long and growing list of USPS initiatives designed to add value to mail, retain mail volume, reduce USPS' costs, and increase USPS efficiency. From Informed Delivery marketing campaigns, to Service Performance Measurement and diagnostic tools to improve service, to election mail tracking, Informed Visibility, Surface Visibility, Mailer Scorecard data to drive mail quality improvements, and much more – all rely on the data only the MSPs can provide with their Streamlined Mail production and processing capabilities. These new data-rich capabilities are not only offering benefits to the MSPs but are providing even greater benefits to the USPS. However, these capabilities do not come without costs. The ongoing costs of supporting the necessary personnel, processes, software/hardware, etc...to produce IMb Full-Service mail are partially offset by the Full-Service price incentive, but this incentive is not sufficient to support other programs such as Seamless Acceptance.

The USPS obviously recognizes that how mailings are produced is changing through data-rich intelligent mail that has created a new "streamlined mail process." The NAPM appreciates the USPS realizing the value of continuing to receive this Intelligent mailing data in its decision to maintain the existing price incentive for IMb Full-Service mail. The NAPM hopes that the Postal Service also recognizes the value of this data-rich mail extends far beyond its Mail Acceptance functions and has actually enabled an innovative "streamlined mail product" that is already providing and will continue to provide significant cost reduction and delivery performance efficiencies while enabling the ability to create other products and services that add value to mail for the consumer. The NAPM wants to encourage the Postal Service in its future pricing decisions to continue to promote the use of these streamlined mailing processes through sufficient incentives, like it did with the Full Service Intelligent Mail, to not only help the MSP defray the costs to support this new way of mailing, but share in the costs savings that the USPS realizes --and will continue to realize -- from the data-rich intelligent mail that only the MSPs can provide them.

VI. Conclusion

In closing, NAPM continues to emphasize the importance of maintaining and enhancing workshare discounts and programs – both for the financial condition of the Postal Service in driving the most profitable and cost-effective mail preparation and entry behaviors – and for the industry, which is dependent on the future of mail as an essential and affordable channel for business communication. We cannot stress enough the significant impact that changes to price differentials between workshare sortation and mail entry levels have on driving mail preparation and entry behaviors as well as supporting mailer and MSP investments to maintain and enhance preparation of the most profitable and cost effective mail for the Postal Service.

NAPM believes that now more than ever, the Postal Service needs to maximize the pricing flexibility available to it, as outlined in the Postal Accountability and Enhancement Act (PAEA) Objective 1, as outlined above. NAPM also encourages the Commission to now take a firmer hand in guiding the USPS to better leverage its pricing flexibility to improve the "pricing efficiencies" as the Commission had intended when it developed the rate setting system. The Commission should reject any proposed changes that are set below 100% passthrough that the USPS has not provided substantive rationale for, supported by the Objectives and Factors. This should become a standard response by the Commission at least for the next 3 years (as recommended in its 10-year review proposed solutions) or until the USPS changes its past practices.

For a decade now, the Postal Service and the Industry have been waiting for legislative action to address some of the more fundamental issues with the institution. We believe that maybe at some time such action may happen, but we also know that we (the Postal Service, the Regulator, and the Industry) can start addressing what is within our control to do. NAPM believes that a fundamental step in that process is to make the pricing efficiencies work as the Commission intended and use them to take more and more costs out of the First and Middle miles of the Postal network. With the data richness only the mailers can provide and the Intelligent mail capabilities the USPS has developed, we believe that there are many opportunities to do so that will enable the Postal Service to remain financially viable into the future – we simply ALL need to work evermore collaboratively together.

The NAPM appreciates the Commission's consideration of these comments.

Respectfully submitted,

____/s/_________________________

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