Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes To Implement	)	
Functionally Equivalent Negotiated Service	)	Docket No. MC2004-3
Agreement with Bank One Corporation	)	

REPLY OF NATIONAL POSTAL POLICY COUNCIL
TO PETITION OF J.P. MORGAN CHASE & CO.
TO REOPEN RECORD
(October 26, 2005)

Pursuant to Order No. 1444, the National Postal Policy Council ("NPPC") hereby replies in support of the Petition of J.P. Morgan Chase & Co. to Reopen Record (filed September 14, 2005). NPPC agrees, for the reasons stated in the Petition to Reopen, that J.P. Morgan Chase and the USPS should be allowed to submit additional evidence to satisfy the risk standard announced in the Commission's December 2004 Recommended Decision.

NPPC is a trade association representing large business users of First Class Mail, including those in the telecommunications, banking and financial services, utilities and insurance industries. The mission of NPPC is to support and encourage a robust and healthy postal system. Hence, NPPC is extremely interested in ensuring that each Negotiated Service Agreement ("NSA") recommended by the Commission provide the maximum possible financial benefit to the USPS, not just to the individual NSA partner.

For this reason, NPPC is particularly concerned that the Commission recognize the financial risks to the USPS, and thus to the overall mailing community, from capping NSA discounts as well leaving them uncapped. The Commission has stated repeatedly its concerns over the risk to mailers from an uncapped NSA (Order No. 1443 at 13):

> The Commission recommended a stop-loss cap to bring the risks associated with potentially inaccurate volume projections to within an acceptable range. If these risks materialize, mailers not party to the agreement could be subject to harm. The Commission cannot eliminate all risks from Negotiated Service Agreements, and the Commission does not expect that Negotiated Service Agreements will be risk free. However, if an unreasonably significant risk is identified that could cause harm to the Postal Service and/or its customers, the Commission would be remiss if it did not condition its recommendation on the addition of an applicable risk control device.

Despite the Commission's recognition that that NSAs should not—and cannot—be risk free, however, the Commission has not considered, either in its Recommended Decision or in Order No. 1443, the very large risk imposed by the cap itself: the likelihood that the cap chokes off additional potential mail volumes and net contributions from these volumes.

Interestingly, the Commission did recognize such a risk-risk relationship in the Capital One NSA case. MC2002-2 Op. & Rec. Decis. ¶¶ 8021-22 (considering financial risks of cap, but finding them insignificant because Capital One volume was unlikely to reach the cap). The Commission went further in MC2004-2, upholding the Priority Mail flat rate box proposal, despite its potential for revenue leakage, because the potential gains from the proposal appeared to be much larger:

> However, the Service also recognizes that introducing the flat rate boxes carries a financial risk: potential revenue leakage resulting from Priority Mail customers who currently pay higher rates for relatively heavy and/or long-distance shipments "buying down" to the flat rate box. Witness Scherer's testimony analyzes the potential revenue leakage from this effect, and arrives at a worst-case annual revenue loss of $12.6 million. The Postal Service views this risk of revenue leakage as minimal, and argues that it should be more than offset by the potential financial benefits of the experiment. The Commission agrees that the reasonably bounded risk of potential revenue leakage estimated by the Service does not significantly detract from the merits of its proposed innovation.

MC2004-2 Op. & Rec. Decis. at 13.

We believe that an impartial, careful, and thorough review of the Bank One record will show that Bank One has met the test articulated by the Commission identified above. It has quantified the risk of uncapped discounts (see, in particular, Brief of Bank One Corporation (filed Oct. 8, 2004) at 44-49) and the offsetting risks of caps (see, in particular, *id*. at 49-52)—and has shown that the risk of a cap is far greater than the risk of no cap.

At any time, the prospect of additional, new revenues for USPS would be an attractive one for mailers generally, including the members of NPPC. With a request for higher rates in general pending in Docket R2005-1, new revenue sources would be particularly welcome now. Given the relative degree of risk demonstrated in the Bank One Brief, as summarized above, eliminating the cap is highly likely to enhance the Postal Service's overall revenues. Accordingly, lifting the cap would serve the interests of the entire mailing community.

Therefore, NPPC respectfully urges the Commission to reopen the record, and ultimately to lift the discount cap on reconsideration.

Respectfully submitted,

/S/

Arthur B. Sackler
Executive Director
National Postal Policy Council
7113 Deer Crossing Court
Bethesda, MD 20817
301-469-2078
sacklerart@aol.com

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