

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001**

REPORT ON UNIVERSAL POSTAL )  
SERVICE AND THE POSTAL MONOPOLY )

Docket No. PI2008-3

**COMMENTS OF  
ALLIANCE OF NONPROFIT MAILERS  
(June 30, 2008)**

The Alliance of Nonprofit Mailers (“ANM”) respectfully submits these comments pursuant to Order No. 71, *Universal Service Obligation*, issued by the Commission on April 18, 2008, and published in the Federal Register at 73 Fed. Reg. 23507 (April 30, 2008).

Nonprofit organizations use every class, subclass and mail product offered by the USPS. Nonprofits rely particularly on the nonprofit subclasses of Standard Mail (to raise funds and communicate with members and other stakeholders) and Periodicals Mail (to communicate educational, cultural, scientific and informational content to members and other interested persons). ANM generally agrees with the views of DMA/PostCom, MPA and NPPC on the issues raised in this rulemaking. These comments focus on the particular concerns of ANM members with respect to universal service for the nonprofit mail subclasses.

Universal service should continue to have its generally recognized attributes: (1) geographic scope; (2) range of product offerings; (3) access to postal facilities and services; (4) frequency of delivery; (5) rates and affordability; and (6) quality of service.

We believe that the current dimensions of universal service are generally appropriate, and do not advocate changing them now. At the same time, however, the Postal Service needs to retain sufficient flexibility to change its operations in response to future changes in economic conditions.

**I. Topic No. 1: Scope of "Universal Postal Service" and "Universal Service Obligation." Topic No. 2: Historical Development of Universal Service, the USO and Monopoly Laws**

The Commission has noted that many of the characteristics of the services that the Postal Service must provide universally are not defined by Title 39 or any other statutory provision. 73 Fed. Reg. at 23508. As a practical matter, however, the characteristics and features of universal service have been defined as much by usage as by law. After many years of universal mail service, its features have become engrained in the expectations of both senders and recipients of mail. Nonprofit organizations, like commercial mailers, have made long-lived investments in their operations in reliance on the ability to reach essentially every household and business in the United States. So, whether or not the law explicitly requires it, the assumption that the postal system will continue to provide a level of universal service at roughly its current level now provided is certainly an expectation of the American public and its political representatives, at least as long as this level of universal service remains affordable.

**II. Topic No. 3: Universal Service: Geographic Scope**

For ANM and nonprofits generally, universal reach to everyone is of paramount importance. The inclusion of all is inherent in the mission of the nonprofit community.

At the same time, ANM recognizes that the Postal Service must have some flexibility to adopt reasonable economies (e.g., delivery to cluster boxes and college mailrooms rather than to individual houses or apartments) when more personalized delivery to the ultimate addressee would not be cost effective. Any review of universal service must take into account the economic constraints on the size and scope of the postal infrastructure. Furthermore, the optimum tradeoff between the cost and the level of universal service is likely to change if Postal Service mail volume continues to decline or (in the opposite direction) if advances in technology improve the Postal Service's financial health. For these reasons, the Commission (and Congress) should avoid freezing the current level of universal service in place by prescribing detailed and rigid rules governing the geographic scope of universal service.

### **III. Topic No. 4: Universal Service: Range of Product Offerings**

The products and services that the Postal Service should be obligated to provide universally clearly should include the nonprofit subclasses of Standard and Periodicals Mail. Preferred rates for the nonprofit subclasses are mandated by 39 U.S.C. § 3626(a). This provision reflects the deliberate legislative judgment of Congress that the external benefits provided by nonprofit organizations to society warrant the continuation of preferred rates for the nonprofit subclasses of Standard and Periodicals Mail. As explained in the separate comments of the Magazine Publishers of America, Inc., periodical rates (both nonprofit and regular) likewise reflect a long-standing statutory judgment that the educational, cultural, scientific and information value of periodicals is of great value to society. If these mail services are worthy of being offered at relatively

low rates, *a fortiori* they are worthy of being offered universally throughout the United States..

#### **IV. Topic No. 6: Universal Service: Frequency of Delivery**

ANM believes that six-day delivery is of great value to nonprofit organizations and their stakeholders, and should be provided to virtually all addresses, as occurs today. Nevertheless, one can imagine future circumstances that might warrant broader (or narrower) departures from the six-day delivery requirement, and the Commission should avoid recommending rules that would tie the Postal Service's hands unduly.

#### **V. Topic No. 7: Universal Service Obligation: Rates and Affordability of Service and Topic No. 8: Universal Service: Quality of Service**

Affordability is another critical component of tomorrow's postal system. With substantial cost reduction initiatives throughout the nonprofit sector, postage is becoming a greater and greater portion of the cost of operating a nonprofit organization. Hence, continuation of the existing universal service model cannot be at any cost. The industry must be allowed to participate, examine and co-develop standards and alternatives when nonprofit mailers experience the continued diminishment of affordability with any mail service.

ANM believes that the Commission should refrain at this time from prescribing additional rate or service standards at this time under the rubric of the universal service obligation. In the uncertain and rapidly changing economic environment in which the Postal Service currently operates, the Commission should refrain from locking the

Postal Service into operating standards that changing market conditions and technology may quickly render excessive or insufficient.

At the same time, however, the Commission should remain vigilant to ensure that changes in service standards which have a significant economic impact on the costs of mailers or recipients are properly factored into the CPI-based indexing mechanism established under 39 U.S.C. § 3622(d). The comments filed with the Commission last year in Docket No. RM2007-1 revealed a broad consensus among mailers that an adjustment to the index prescribed by 39 U.S.C. § 3622(d) for significant changes in the quality of service is necessary to carry out its purposes.<sup>1</sup> This consensus is also supported by the scholarly economic literature. “In contrast to cost-of-service regulation, a price-cap regulated firm has an incentive to reduce quality of service in an effort to reduce costs and increase profits.”<sup>2</sup> Attention to quality of service is particularly

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<sup>1</sup> See, e.g., Docket No. RM2007-1, ANM-NAPM-NPPC Comments (April 6, 2007) at 7-9; DMA Comments (April 6, 2007) at 6; Mulford Associates (April 6, 2007) at 3; NNA Comments (April 6, 2007) at 10-12; OCA Comments (April 6, 2007) at 18-20; Pitney Bowes Comments (April 6, 2007) at 9; McGraw-Hill Reply Comments (July 30, 2007) at 6-7; Transcript of Kansas City field hearing (June 22, 2007) at 40 (Randy Stumbo testimony for Meredith Corporation); Transcript of Los Angeles field hearing (June 28, 2007) at 38 (John Carper testimony for Pepperdine University); Transcript of Wilmington field hearing (July 9, 2007) at 19-20 (testimony of Sr. Georgette Lehmuth for National Catholic Development Conference); *id.* at 30 (testimony of Daniel C. Emens for J.P. Morgan Chase); NPPC Comments on Order No. 26 (Sept. 24, 2007) at 7-9.

<sup>2</sup> Michael A. Crew and Paul R. Kleindorfer, “Pricing, Entry, Service Quality, and Innovation under a Commercialized Postal Service,” in J.G. Sidak, ed., *Governing the Postal Service* 164-165 (1994); *accord*, Jean-Jacques Laffont and Jean Tirole, *A Theory of Incentives in Procurement and Regulation* 212, 233 (1993). This basic problem is the reason why Pentagon contract managers tend to “favor performance over cost. They often feel that fixed-price contracts encourage contractors to make ‘uneconomic’ reliability trade-offs and be reluctant to make design improvements.” *Id.* at 233 n. 13.

important in rate indexing for regulated industries that are not experiencing rapid productivity gains.<sup>3</sup>

The Commission, while stating that it was “sympathetic to these concerns,” announced in Order No. 26 that it would defer consideration of a quality adjustment until after the promulgation of rules for the collection of data on service performance. Order No. 26 ¶ 2067. In the interim, the Commission stated that it “expects that the Postal Service will operate within both the letter and the spirit of the PAEA.” *Id.* ¶ 2068. Given the likelihood (and, indeed, the desirability) of changes in service standards over time, this issue warrants further consideration.

**VI. Topic No. 10: The Implications of the Universal Service Obligation for the Postal Monopoly. Topic No. 11: Universal Service, the Universal Service Obligation and the Postal Monopoly in Other Countries**

ANM supports the continuation of the postal monopoly over delivery of letter mail, at least for the foreseeable future, to ensure that the Postal Service has necessary revenues to continue to provide essential services. The potential threat of “cream-skimming” that could result from relaxation of the postal monopoly is of significant concern to nonprofit organizations. While some economists have argued that the threat of competitive entry could induce substantial increases in the efficiency of Postal Service operations, ANM believes that any testing of this hypothesis should be deferred until the economic pressures on the Postal Service from electronic diversion, the slowdown of the overall economy, and the rapid growth of energy costs have stabilized;

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<sup>3</sup> Michael A. Crew and Paul R. Kleindorfer, “A Critique of the Theory of Incentive Regulation: Implications for the Design of Performance Based Regulation for Postal Service,” in Crew and Kleindorfer, eds., *Future Directions in Postal Reform* (2001).

the Postal Service and its stakeholders have learned more about the effects of the implementation of the Postal Accountability and Enhancement Act of 2006 (“PAEA”); and the results of experiments with market liberalization in the European Union are known.

For the foreseeable future, ANM likewise supports continuation of the mailbox monopoly, which protects the actual and perceived privacy and security of the mails as a medium for transmitting bills, statements and other confidential and personal information.

## **CONCLUSION**

ANM respectfully requests that the Commission base its recommendations on the principles stated in these comments.

Respectfully submitted,

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