

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

ANNUAL COMPLIANCE REPORT, 2009

Docket No. ACR2009

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 23, 2010)

In Order No. 380 (Jan. 5, 2010), the Commission solicited comments on the United States Postal Service's Annual Compliance Report for Fiscal Year 2009. The Public Representative and a number of private parties submitted comments. The Postal Service hereby provides its reply comments, addressing the main proposals and arguments set forth by commenters.¹

I. Retiree Health Benefits Fund Payments and Potential Pension Fund Overpayments

As several commenters noted, among the most significant issues currently facing the Postal Service is the statutory requirement that it prefund the Postal Service Retiree Health Benefits Fund (PSRHBF).² In contrast to the economic climate in 2006, when Congress passed the Postal Accountability and Enhancement Act (PAEA), the current economic climate makes it impossible for the Postal Service to achieve financial stability while continuing to make the required payments. Indeed, it is difficult to envision the

¹ In a Notice of Schedule Changes issued on February 10, 2010, the Commission revised the deadline for submitting reply comments from February 16, 2010 to February 23, 2010.

² Greeting Card Association Comments (Feb. 5, 2010); National Postal Mail Handlers Union Comments (Feb. 5, 2010); Valpak Comments (Feb. 1, 2010).

Postal Service being able to make these payments while meeting its other obligations into the foreseeable future. Given the extent of the Postal Service's deficit, it would make sense for Congress to recalculate the level of payments necessary to ensure that the PSRHBF remains sound.

A related matter to discuss with Congress is the recent report from the Postal Service Office of Inspector General (OIG) finding that the Postal Service has overpaid \$75 billion into the Civil Service Retirement System (CSRS) pension fund.³ The Postal Service has raised this issue in the past with the Office of Personnel Management and the CSRS Board of Actuaries. If the OIG's findings are correct, then the pension fund overpayment could be applied to cover the PSRHBF payment obligations, and reductions to future pension fund payments could help close the Postal Service's budget deficit.⁴ To help clarify this issue, it may be useful for the Commission to retain an actuary to review and provide a report to the Commission on whether the Postal Service has overpaid into the CSRS pension fund. The PAEA expressly grants the Commission authority to retain an actuary for such a purpose upon request by the Postal Service.⁵ The Postal Service is making such a request by separate filing today.

II. Rate Changes

Commenters varied greatly in their views on using rate increases to close the Postal Service's deficit. The Public Representative, for example, believes that large,

³ U.S. Postal Service Office of Inspector General, "The Postal Service's Share of CSRS Pension Responsibility" (Jan. 20, 2010), *available at* http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf.

⁴ The National Postal Mail Handlers Union made this suggestion in its comments.

⁵ Section 802(c)(1)(B), Postal Accountability and Enhancement Act, Pub. L. No. 109-435 (2006).

consecutive, across-the-board rate increases are needed to ensure financial stability.⁶ Others believe that only rates on specific product classes should be increased, particularly where such product classes are not covering their attributable costs.⁷ Others point out that significant rate increases could cause decreases in mail volume and harm the business models of large mailers.⁸ While the Postal Service agrees with commenters that some measure of rate stability and predictability is important, it believes that rate changes may be necessary to help stem the Postal Service's budget deficit. The Postal Service continues to discuss rate change options with the Board of Governors.

III. Reducing Costs

As many commenters noted, continuing to reduce costs will be an important component of achieving financial stability.⁹ Commenters offered a variety of cost-reduction proposals. Valpak noted that significant cost savings could be achieved through a move from six-day delivery to five-day delivery.¹⁰ The Postal Service agrees that a move to five-day delivery merits serious consideration by Congress. The Postal Service intends to file in the near future with the Commission a request, pursuant to 39

⁶ Public Representative Comments (Feb. 2, 2010).

⁷ Valpak Comments (Feb. 1, 2010).

⁸ American Catalog Mailers Association Comments (Feb. 1, 2010); Direct Marketing Association Comments (Feb. 5, 2010); Time Warner Comments (Feb. 1, 2010).

⁹ Greeting Card Association Comments (Feb. 5, 2010); Time Warner Comments (Feb. 1, 2010); Valpak Comments (Feb. 1, 2010).

¹⁰ Valpak Comments (Feb. 1, 2010).

U.S.C. § 3661, for an advisory opinion on proposals for five-day delivery on a nationwide, year-round basis.

Valpak also urged that the Postal Service be permitted to identify and close facilities and branches whose work is duplicative and could be consolidated.¹¹ This issue is presently before the Commission.¹²

IV. Worksharing Discounts

Commenters disagreed on whether the current levels of worksharing discounts are appropriate. One commenter argued that worksharing discounts are too high,¹³ while another advised that the discounts be expanded.¹⁴ Over the years, worksharing discounts have been useful in providing better alignment between the Postal Service's costs and prices. The focus on the level of discounts, in relation to the statutory standards, however, does not exhaust the considerations that must be factored into analysis of Postal Service prices. As the Postal Service has previously emphasized, in interpreting the statute, it is also important to consider the characteristics of distinct products, whether in First-Class Mail or elsewhere, as reflected in the Commission's own determinations establishing the classification schedule. In this regard, the relationships between what are essentially two separate products within First-Class Mail cannot be disregarded.¹⁵ Furthermore, the Postal Service notes that there can be

¹¹ Valpak Comments (Feb. 1, 2010).

¹² Docket No. N2009-1.

¹³ American Postal Workers Union Comments (Feb. 1, 2010).

¹⁴ Pitney Bowes Comments (Feb. 1, 2010).

¹⁵ This issue is pending as part of Docket No. RM2009-3.

mismatches between the passthroughs estimated at the time that worksharing discounts are instituted and the passthroughs calculated based on later data.

V. Other Issues

In addition to the issues discussed above, commenters raised a variety of other points. The Public Representative and Valpak stated that the service performance data provided in the Annual Compliance Report is incomplete.¹⁶ The Postal Service notes that the content requirements of annual compliance reports and other periodic reports are subject to a pending rulemaking.¹⁷ As has been stated in that rulemaking, the Postal Service's performance measurement systems are still evolving, and progress is being made. This evolution, furthermore, must respond to realistic choices among uses for scarce resources, reflecting the need for, and effectiveness and costs of, various options for measuring and reporting service performance.

Valpak also argued that negotiated service agreements (NSAs) should be replaced with niche classifications. Both NSAs and niche classifications are provided for in the law, and the Postal Service believes that both have utility in pursuing its product pricing goals.

VI. Conclusion

The Postal Service appreciates the opportunity to comment on the major issues currently facing it and the best methods for achieving financial stability. Although it is not possible to resolve all of these issues within the framework of the Annual

¹⁶ Public Representative Comments (Feb. 2, 2010); Valpak Comments (Feb. 1, 2010).

¹⁷ Docket No. RM2009-11.

Compliance Review, the Postal Service looks forward to discussing these issues in more detail with the Commission in the coming year.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Pricing & Product
Development

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema
Eric P. Koetting

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Nabeel R. Cheema

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-7178, FAX: -6187
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