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

EXIGENT REQUEST, 2010	Docket No. R2010-4

COMMENTS OF THE NATIONAL POSTAL POLICY COUNCIL IN OPPOSITION TO EXIGENT RATE INCREASE

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(August 17, 2010)

The National Postal Policy Council[1] opposes as profoundly counterproductive the request of the Postal Service under the Postal Accountability and Enhancement Act of 2006 ("PAEA") to raise rates exponentially beyond the rate of inflation. This first use of the "exigency" authority under the PAEA not only threatens to establish a precedent that would enable circumvention of the clear will of the Congress to restrain postage increases to the growth in inflation, but also risks accelerating in a serious way the very problem the Postal Service articulates as the reason for its request: the departure of mail from the system.

Now, at a time of chronically declining First-Class Bulk letter volumes and when a barely recovering economy remains in peril of a "double dip" recession, is

[1] The National Postal Policy Council is an association of large business users of letter mail, primarily Bulk First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, utilities, insurance, and mail services industries. Composed of approximately 30 of the largest customers of the Postal Service with aggregated mailings of more than 30 billion pieces, NPPC supports a robust postal system as a key to its members' business success and to the health of the economy generally.

no time to impose rate increases nearly seven times the rate of inflation, well above both the system average *and* the First-Class Mail average, on First-Class Bulk mailers (comprised of Automation and Presort rate categories). These mailers not only provide the most lucrative – on both a per-piece and an aggregate basis -- and easiest-to-handle mail in the system, but for the first time have a truly competitive alternative to the postal system.

Yet, the Postal Service has proposed to do precisely that, by raising First-Class Bulk letter rates – the product with the highest price elasticity of demand within First-Class letters – by an average of 5.9 percent. This sharp increase is highlighted by a proposed 6.27 percent increase (itself beyond the 4 to 6 percent range that the Postal Service felt was "right") in the most heavily used category within this product -- 5-digit Automation letters. These percentage increases well exceed the average for market-dominant products of 5.6 percent and are twenty-five percent greater than the 4.7 percent increase for the second-largest First-Class Mail product, which is Single-Piece.

NPPC also strongly supports the position of the Affordable Mail Alliance ("AMA") that an exigent increase is simply not justified at this time at all, let alone under the terms of Section 3622(d)(1)(E) of the PAEA. Business cycles and the advent of competing communications systems that are foreseen, and observed to be ripening for literally decades, hardly are either "extraordinary or exceptional." While NPPC genuinely respects the cost-cutting milestones the Postal Service, its Board, its managers, and its employees have achieved in recent years, and especially over the last two, while maintaining service, much more could have and now must be done in the interest of “best practices” of “honest, efficient and economical”[2] management.

Finally, NPPC believes a rate increase for Bulk letters at this time is not “reasonable and equitable and necessary” as required by Section 3622(d)(1)(E) of the PAEA. When one finds oneself in a hole, the first step is to stop digging. When the problem is declining volume, it is not “reasonable” to drive away still more volume. The likely outcome of the rates proposed for First-Class Bulk letters is, as explained below, an accelerated loss of volume that substantially, if not dramatically, exceeds the Postal Service’s forecasts, damaging the Postal Service still further. Rate increases that result in such self-defeating outcomes are not “reasonable and equitable and necessary” and should be rejected on that basis.

The Postal Service’s own numbers indicate that rate increases of the magnitude proposed would turn a projected growth in First-Class Bulk letters into a substantial volume decline. NPPC believes the reality is even worse, and respectfully submits that the Postal Service has vastly underestimated the actual volume loss in both FY 2011 and beyond. Once it leaves the postal system, this mail is unlikely to return.

As shown in the attached declaration of NPPC Executive Director Arthur B. Sackler, NPPC is reasonably confident that, if the proposed rates take effect, a portion of its membership alone will reduce their mailings by more than the 307

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[2] NPPC uses this statutory phrase as the term of art it was intended to be. 39 U.S.C. §3622(d)(1)(E). NPPC does not intend that the term mean, as put in a somewhat overwrought manner in the Postal Service’s response to the AMA’s Motion to Dismiss, that the Postal Service has exercised “dishonest” management.

million piece decline projected by the Postal Service. In particular, NPPC members, who account for a substantial portion (but hardly all) of First-Class Bulk letter mail, would, if the new rates took effect, *by themselves* reduce their Automation and Presort-rated mail volumes well beyond the reduction predicted by the Postal Service. Just *seven* NPPC members would collectively reduce their volume by approximately 344 million letters in 2011 -- a greater volume loss than the Postal Service projects for the *entire product* (and there is no suggestion that new volume would miraculously make up the difference).[3] And this estimate does not include corresponding decreases in response mail from customers who previously used First-Class mail, nor does it include reduced Standard mailings to those customers due to the fact that they no longer are contacted through the mail.

For the reasons set out in these Comments, NPPC respectfully submits that the Commission can do its part to stem the loss of the Postal Service's most efficient and profitable mail by rejecting the rate increase. In particular, NPPC urges the Commission:

- To dismiss this proceeding for the reasons stated in the Motion of the Affordable Mail Alliance To Dismiss Request (filed July 26, 2010), to which NPPC is a signatory. As explained in the motion, the proposed rate increases are illegal, ill-timed, and will boomerang on the Postal Service;
- To rule that raising rates for First-Class Bulk letter mail would not be "reasonable and equitable" or consistent with "best practices" of management because they will cause the most profitable customers to

[3] The NPPC volume estimate covers Calendar Year 2011, and therefore includes one quarter omitted from the Postal Service's FY 2011 volume forecast period. However, the magnitude of the volume change alone from merely the twelve NPPC member companies surveyed casts serious doubt on the Postal Service's volume forecast.

leave the postal system at a much faster rate than indicated by the Postal Service's volume forecast;

- To defer consideration of Section 3622(e) issues arising from rates in this proceeding until the first Annual Compliance Review in which costs and rates are from the same period of time, and to recognize that treating First-Class Bulk letters as a workshared derivative of the separate and distinct Single-Piece product leads to unreasonable rates and drives the most profitable mail away from the postal system; and

- To approve the "Reply Rides Free" initiative, which represents a start on a program that offers potential to retain or increase volume, but which must have more flexibility, fewer restrictions, and greater certainly of repayment if it is to succeed.

I. "EXTRAORDINARY OR EXCEPTIONAL" CIRCUMSTANCES DO NOT EXIST THAT COULD JUSTIFY ABOVE-CAP RATE INCREASES

The Affordable Mail Alliance's motion to dismiss, which NPPC joined, demonstrates that the Postal Service's current financial straits are not the type of "extraordinary or exceptional circumstance" that Congress had in mind when it crafted the narrow exception to the rate cap in Section 3622(b)(1)(E). Thus, the Postal Service has not satisfied the threshold issue in this case – proving the existence of "extraordinary or exceptional circumstances" necessitating, under best practices of honest and efficient management, rate increases in excess of the CPI-based rate cap established by Congress less than four years ago.[4] The purpose of the rate cap was to break the past practice under the former Postal Reorganization Act in which the Postal Service regularly raised rates to cover its costs, regardless of how imprudent those costs may have been.

[4] This became abundantly apparent during the public hearings, when the Postal Service's witnesses had trouble identifying any "extraordinary or exceptional" circumstance other than it might experience cash flow problems by the end of its FY 2011. The Comments filed today by the Affordable Mail Alliance detail the failure of USPS to prove this threshold requirement.

Mailers have not caused the Postal Service's current problems, and mailers should not be called upon to solve them. Rectifying the Postal Service's financial issues are entirely within the power of the Congress and the Postal Service itself. Indeed, as the Commission has already recognized and recommended to the Congress, correcting the Postal Service's overfunding – to the tune of some $55 billion -- of Civil Service Retirement System premiums could greatly improve the Postal Service's balance sheet and contribute substantially to addressing its retiree health premiums obligations.

NPPC will not restate the AMA arguments here, other than to iterate with urgency that the Postal Service must manage its operations in a way that adjusts to economic conditions. This includes making more effective efforts to reduce its costs by right-sizing both its facilities network and the number of its employees. Problems stemming from insufficient cost reductions should not, and under the rate cap regime adopted by Congress only a few years ago may not, simply be passed on to mailers to pay.

For its part, Congress has a responsibility to treat the Postal Service and its customers fairly and reasonably when addressing its CSRS overpayments and retiree health benefits funding obligations. NPPC is working actively with the Coalition for a 21st Century Postal Service and others to urge Congress to credit that overpayment to the retiree health benefit fund and other purposes. Yet in the absence of legislation, the Congress's past policy decisions do not provide justification for a rate increase that will merely make the Postal Service's financial situation worse.

Finally, since implementation of the across-the-board rate increase approved in Docket No. R2005-1, mailers of all classes have paid $3.1 billion annually for extra costs. At first, that increase was intended to fund an escrow related to the Postal Service Civil Service Retirement System. *See generally Opinion and Recommended Decision*, Docket No. R2005-1 at ¶3001 *et seq*. (Nov. 1, 2005). The PAEA redirected those escrowed funds to be a partial prepayment of the Postal Service's retiree health benefit premiums. Those rates have never been rescinded; therefore, since the enactment of PAEA, mailers *annually* have paid and continue to pay at least $3.1 billion expressly earmarked for the retiree health benefit fund. In FY 2009, the Postal Service profited by $1.7 billion from this requirement, as Congress reduced its obligation to $1.4 billion for that year.

The Postal Service should not be allowed to "double-dip" by relying on that funding requirement as a justification for this case. There is nothing "extraordinary or exceptional" about a funding obligation that has been in the law since 2006, and that mailers have already paid for nearly half a decade.

II. THE REQUESTED ABOVE-AVERAGE INCREASES FOR FIRST-CLASS BULK LETTERS ARE UNREASONABLE AND INEQUITABLE AND WILL ACCELERATE VOLUME LOSS BY MORE THAN THE POSTAL SERVICE PROJECTS

In order to be allowed above-cap rate increases under the narrow statutory exigency exception, not only must the Postal Service prove the existence of an "extraordinary or exceptional circumstance" to justify any increase, but it must also show that the requested rates are:

> 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.

Section 3622(d)(1)(E). It is hardly "best practices" for a business to impose some of its highest rate increases on customers that provide it with its largest volumes and highest contributions, especially when doing so will cause those customers to reduce their mail volumes at an accelerating rate. Accordingly, NPPC respectfully submits that the requested sharp increases in Automation and Presort letter rates are neither reasonable nor equitable nor necessary, and are not consistent with "best practices of honest, efficient, and economical management."

A. First-Class Bulk Letter Volume Is At Great Risk

The First-Class Bulk Letters and Postcards product is, and for many years has been, the most profitable mail for the Postal Service, bearing a cost coverage of 291.8 in the most recent Annual Compliance Determination (*Annual Compliance Determination Fiscal Year 2009* at 29) and a coverage of 299.8 in FY2010. Masse Statement, Attachment 9. Within the product, "Automation Letters, the primary component of the Presorted Letters/Postcards product, is the most profitable (highest contribution) offering of the Postal Service." Kiefer Statement at 16. Moreover, "[n]ot only is this mail highly profitable, it also provides the single largest source of contribution to institutional costs. Almost 45 percent of our contribution comes from Presorted letters." *Id*. at 17. The following table compares the relative costs and contributions of the two largest First-Class Mail letter products: [5]

	FY10 Unit Contribution ($)	FY10 Unit Attributable Costs ($)	FY10 Total Contribution ($)
FC Bulk Letters	0.236	0.118	10.5 billion
FC Single Piece	0.198	0.258	5.5 billion

The increasing acceptance, attractiveness, and convenience of electronic diversion is putting First-Class Bulk letter volumes at grave risk:

> Not only is this mail highly profitable and extremely important financially*, it is highly vulnerable*. Our customers are increasingly looking to nonmail alternatives to transact business with their customers, with the result that *many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether*.

Kiefer Statement at 17 (emphasis added). As the Commission and Postal Service both are aware, First-Class Bulk letter volumes declined precipitously during the recent recession, falling by 7.4 percent (3.8 billion pieces) in FY 2009 alone. *Annual Compliance Determination, Fiscal Year 2009* at 33. The Commission observed in its FY09 ACD that this plummeting mail volume partly "can be attributed to electronic presentment of bills and financial statements." *Id*.

The Postal Service recognizes the magnitude of electronic diversion quantitatively through the strength of the broadband deployment factor in the First-Class Bulk letter volume forecast methodology, which has far greater impact than any other factor. And, consistent with its susceptibility to electronic

5 Data from Revised Statement of Stephen J. Masse, Attachment 9.

diversion, First-Class Bulk mail also has the relatively most elastic measured price elasticity of demand within First-Class Mail: -0.4.[6]

To NPPC members, who account for a very substantial portion of First-Class Bulk letter volume (mostly Automation rate letters), the lower price and significant convenience of electronic delivery became even more attractive during the recent 2008-2009 recession, especially when compared to ever-increasing postage rates. During the recession, NPPC members were under enormous pressure to reduce their operating budgets and cut non-essential costs. Many found that converting statements, invoices, and other customer communications to electronic delivery, sometimes using incentives, were an effective way to manage their costs.[7]

This operational trend has continued. Companies that learned during the recession that electronic presentment is less costly and more convenient are not reverting to mail. Electronic communication is faster, can reach consumers wherever they are (rather than at a fixed address), is much less costly, and is increasingly attractive. As the Postal Service acknowledges, an increasing number of NPPC members and other large users of the First-Class Automation and Presort letters are redoubling their efforts to entice more customers to accept electronic presentment, and to engage in electronic payment, rather than use

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[6] USPS-R2010-4/8, Revenue and Volume Forecast Materials, Tab "Elasts". The 2010 volume forecast filed earlier this year used a price elasticity of –0.436 for First-Class Bulk mail. *Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed with Postal Regulatory Commission on January 20, 2010,* at 36 (July 1, 2010).

[7] *See* Sackler Declaration, ¶8. NPPC members are in the financial, insurance, telecommunications, and other businesses. Customer mail is not their core product, but rather is an operational expense which they seek to minimize.

letter mail.[8] This is why Automation mail is "at great risk of electronic diversion." Kiefer Statement at 16.

For these reasons, NPPC believes the recession has fundamentally changed the demand for mail on the part of many of its members. No longer do they regard First-Class Bulk letters as an indispensable means of communicating with their customers. While they still value the mail, and recognize that some minor percentage of their customers will continue to prefer paper communications regardless of external conditions or corporate incentives, many companies will no longer increase their postal budget if rates rise; instead, they will respond by holding the budget firm and converting even more communications to electronic format.

These changes in business operations are real and permanent. As discussed below, these changes also cast considerable doubt on the validity of the Postal Service's presort mail volume forecast, which NPPC believes materially overestimates future volume.

NPPC submits that the requested rate increases for First-Class Bulk letters – averaging 5.9 percent, and as much as 6.27 percent for the most-heavily used 5-digit Automation rate category -- are not reasonable or equitable within the meaning of Section 3622(d)(1)(E), nor are they consistent with "best practices" of "efficient and economical" management. Giving rate increases that greatly exceed inflation to a product that is highly vulnerable, is relatively price-sensitive, and has a proven history of electronic diversion is not how a

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[8] *See* Kiefer Statement at 18. For Bulk business mailers, Single-Piece and other even more expensively priced postal products are simply not serious options when Presort rates rise.

reasonable business would set prices. The net result of the new rates, if allowed to take effect, would be an accelerated and permanent loss of high-margin Automation and Presort letters. Driving the most profitable product away is a short-sighted plan, not a "best management practice."

B. The Postal Service's Filing Does Not Justify The Requested Above-Average Rate Increases For First-Class Bulk Mail

One looks in vain for any justification by the Postal Service for the proposed above-average First-Class Bulk rate increases. Instead, a strange disconnect exists between the Postal Service's statements about the price sensitivity and susceptibility to electronic diversion of Automation/Presort mail, and its actual rate proposals.

On its face, the Postal Service displays a clear awareness that First-Class Bulk letters may convert to electronic delivery:

> Our customers are increasingly looking to nonmail alternatives to transact business with their customers, with the result that many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether.

Kiefer Statement at 17. Nonetheless, the Postal Service proposes for Bulk letters not just "large price increases" but in fact the largest increases in First-Class letter rates. Not only does the product-average 5.9 percent increase exceed the system average and just barely skirt the top end of the Postal Service's 4 to 6 percent "range," but the single largest volume Bulk rate category – 5-digit Automation – gets hit with a 6.27 percent increase, above the top of the range.

At the least, one would have expected the Postal Service to attempt to justify these large rate hikes by identifying factors that allegedly might support the proposed rates or by explaining how the new rates would deter mailers of First-Class Automation and Presort letters from responding to these large price increases "not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether." But no such attempt is made. Most importantly under the PAEA, at no point does the Postal Service explain how its price increases for First-Class Bulk mail (instead of not raising rates at all) would be "reasonable and equitable" and consistent with "best practices" as required by law.

It is frustrating to NPPC that while the Postal Service recognizes that a large price increase for Bulk letter mail could drive large volumes of that product from the system, it fails to apply that principle. The plain fact is that the Postal Service never presents any analysis of how the rates that it now is proposing would prevent an accelerated loss of high-margin First-Class Bulk letters to electronic alternatives.[9] For these reasons, the rate increase is simply not supported by the Postal Service's own case.

[9] Instead, the Postal Service's discussion of Bulk letter rates appears to be an attempt to justify a smaller increase than the more than 9 percent increase that would have resulted from the mechanical application of the Commission's preferred methodology. While an increase of 9% could be catastrophic under current economic conditions, the Postal Service's discussion here unfortunately begs the question of the impact of rate increases at this time, period.

C. The Postal Service Has Substantially Underestimated The Volume Loss From First-Class Bulk Letter Mail

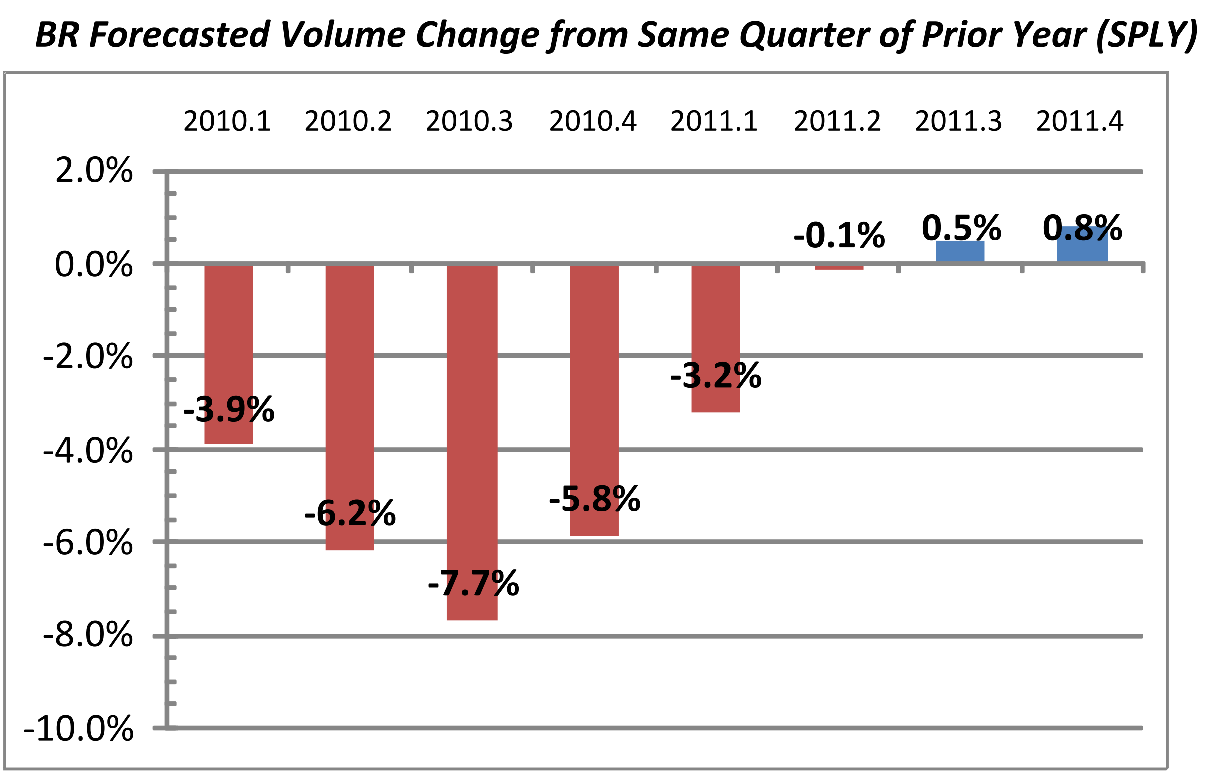
The Postal Service's rate increase for First-Class Automation and Presort letter mail will lead to a much greater loss of volume than it forecasts. There are at least two reasons for this:

- First, even accepting the volume forecast on its own terms, by ending its volume forecast at the end of FY 2011, after only three quarters of the new rates, the Postal Service has omitted still greater volume losses from these rate changes that will occur in FY 2012 due to the lagged effects in its model.

- Second, NPPC believes that the Postal Service's volume forecasting methodology has not captured the change in electronic diversion that occurred during the recent recession affecting the demand for First-Class Bulk letters, as illustrated by its use of a Internet variable in its forecasting formula that is a constant based not on the recent recession, but over the past six years.

To provide a check on the Postal Service's forecasting model, NPPC in July surveyed its mailer members to see how they would respond to the new rates. As discussed in the attached Declaration of Arthur B. Sackler ("Sackler Declaration"), that survey indicates that, if the proposed rates take effect, *seven NPPC members alone* plan to reduce their First-Class Bulk letter volumes in FY 2011 *by more than 344 million pieces, which exceeds the 307 million loss* forecast by the Postal Service.

This is a shame, because the new rates could disrupt a positive trend. Without a rate increase, the Postal Service projects a 0.6 percent (235 million piece) decline in First-Class Bulk (imprecisely labeled "Presort" by the Postal Service) letter volume in 2011, a much smaller decrease than the nearly 6 percent reduction from 2009 levels. Almost all of this loss would occur in the first quarter alone, because (with no rate change) the Postal Service projects an upturn in Bulk letter volume with *increases* in the 3d and 4th quarters of FY2011:



After rates, the Postal Service projects a *loss* of Bulk letter volume in FY2011 of an additional 307 million pieces (above the 235 million piece net decline absent a rate change). The proposed rate increases would reverse the positive trend.

1. Even using the Postal Service's methodology, the volume in the First-Class Bulk letter product will be greater than shown in Mr. Masse's Statement

NPPC believes the Postal Service forecast of an after-rates FY2011loss of 307 million pieces beyond the 235 million letters that it projects to lose even without a rate increase is overly optimistic.[10] The Postal Service volume

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10 *See* Masse Statement, Attachment 10 (BR Presort letter volume of 41,939 million compared to AR volume of 41,632 million).

forecasting model is flawed and significantly understates the loss of First-Class Bulk letter volume.

The Postal Service forecasting model, as it has for years, includes a lag effect for the price elasticity of demand, and the lag effects vary by quarter. The effect of a rate increase on volumes is small in the initial quarter after new rates take effect (because mailers have little time to respond), but the effect increases ("lags over") for the next four quarters before the volume projections account for the full price-elasticity effect of the change in rates.

In this proceeding, the Postal Service's volume forecast for the January 2, 2011, implementation date stops at the end of FY 2011, after only three postal quarters of the new rates. In each quarter of that forecast, the Postal Service projects a decline in First-Class Bulk letter volume. The largest projected volume loss – more than half of the 307 million projected loss -- would occur in the third quarter of the new rates (FY 2011). Had the Postal Service provided a full-year volume forecast or included FY 2012, it would have shown even larger volume losses. For example, consider the Postal Service's alternative volume forecast based on an October 1, 2010, implementation date. The following table presents the Bulk volume forecasts, using the three quarters after the rate change provided in the January 2011 implementation forecast, and presenting on the right side the four "after rates" quarters from the October implementation forecast:[11]

[11] This table is to illustrate the effects of the lag, expressed in percentages. The fourth quarter after an October 1 increase covers different months than the fourth quarter after a January increase, and thus an apples-to-apples volume comparison is not possible.

Effect of Rate Increase is Not Fully Accounted for by 4Q 2011
Letter Volume in Millions

PQ	*No Rate Increase*	*Jan. '11 Rate Increase*		*Oct. '10 Rate Increase*	
	Letter Volume	Decrease	Percent	Decrease	Percent
2011.1	10,640	0	0.0%	(36)	-0.3%
2011.2	10,812	(36)	-0.3%	(103)	-1.0%
2011.3	10,256	(97)	-0.9%	(176)	-1.7%
2011.4	10,231	(174)	-1.7%	(209)	**-2.0%**
	41,939	**(307)**	**-0.7% 1/**	**(525)**	**-1.3%**

Note that the largest percent volume decrease (2 percent) from the October 2010 implementation model occurs in the fourth quarter after the rate increase is implemented (FY2011 Q4 in the October column), a time period not included in the volume forecasts based on the January 2, 2011, implementation.

A full two-year forecast through FY 2012 Quarter 2 would be necessary to allow all of the price elasticity lag effects of a January 2011 implementation date to play out.[12] *Thus, the Postal Service's volume forecasts do not reflect the full prediction of the volume losses attributable to the exigent rate increase.*[13]

This is not to accuse the Postal Service of hiding the ball. It has provided the data required by the Commission. In past cases under the former Postal Reorganization Act, however, such lag effects were more visible due to the requirement that the volume forecasts be rolled forward to a Test Year. Although the Postal Service may no longer need to file Test Year roll-forward forecasts that reflect all of the lag effects, the lag effects themselves do not disappear. The

[12] *See* Response of United States Postal Service to Request for Additional Information Related to Volume Forecasting from Technical Conference on July 23, 2010 & Tr. 2/170 (Masse).

[13] This includes only the effects of broadband Internet access observed through the first postal quarter of 2010. Tr. 2/170 (Masse). Effects of additional broadband access since January 1, 2010, would continue to have two-year lag effects on an ongoing basis.

proposed First-Class Bulk letter rate increases will cause the Postal Service to lose substantially more than the 307 million pieces it projects (merely a nine-month projection) over the next two years, converting a positive-trending Before Rate volume projection into an After-Rates declining one.

2. The Postal Service's volume forecast for First-Class Bulk letter mail is not specified correctly to capture recent changes in electronic diversion

The discussion in the preceding subsection assumes that the Postal Service's First-Class Bulk volume forecasting model is correctly specified. However, NPPC believes that it is not, and that the forecasting model produces an overly optimistic volume forecast for Bulk mail volumes.

First, the Postal Service has already conceded qualitatively that its volume forecasting methodology for First-Class Bulk letters may be flawed. It did so directly in Mr. Kiefer's Statement (at 13) in which he observed:

> Large customers affect large volumes of mail, and if prices increase too much, these customers may decide not just to scale back their mailings, but to leave the mail altogether. *Current econometric estimates of price elasticity may not adequately predict such "tipping point" movements*.

(emphasis added). Similarly, at the public hearing, Mr. Corbett stated in a response to a question by Commissioner Langley that the Postal Service's historically based volume forecasts are "less perfect now given the economic circumstances we're in." [14] Mr. Kiefer also stated that First-Class Bulk letter

[14] Tr. 1/105. *Accord* Comments of the Saturation Mailers Coalition and Valassis Direct Mail, Inc., Docket No. RM2010-9 at 3 (July 16, 2010) (stating that current price elasticities "are derived from historic changes in volume and price that may not reflect current or future market conditions").

mailers "are increasingly looking to nonmail alternatives to transact business with their customers, with the result that many First-Class customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether." Kiefer Statement at 17.

The Postal Service's lessened confidence in its forecast models and concern about the "tipping point" arise from fundamental changes in the economic demand for First-Class Bulk mail that the "current econometric estimates of price elasticity" simply do not capture. A major contributing factor to this change in demand is the increased acceptance and use of the Internet for communications that previously traveled by First-Class Automation or Presort-rated letters. Although this shift to electronic alternatives has been occurring for a number of years, the recent recession accelerated this shift in the past two years by forcing fundamental changes in business operations that will affect mail volumes permanently:

> *it appears that diversion has increased further during the most recent recession, suggesting an interaction between the growth in broadband and the decline in the economy*.[15]

In its January 20, 2010, forecasts earlier this year, the Postal Service tried to address quantitatively this change in demand by modifying how it treated the electronic diversion factor in its volume forecasting model for First-Class Bulk letters. Specifically, it replaced the past procedure (in which the Internet

[15] Tr. 2/169 (Masse) (repeating *verbatim* Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed With The Commission On January 20, 2010 (filed July 1, 2010) at 34 (emphasis in original)).

diversion multiplier was calculated from several different variables) with a new one in which the Internet multiplier is forecast directly and appears in the model as a hardwired electronic diversion factor.[16]

That "direct" input is produced by a regression running "historical Internet multipliers . . . as a function of a simple linear time trend over the past six years . . . [and] were then projected forward."[17] That is, it is an unweighted linear trend of the Postal Service's own *estimates* of Internet diversion used in each of the past six annual forecasts, and not by some expert analysis of diversion. The Postal Service did not consider forward-looking projections of electronic diversion in preparing these forecasts, but rather assumed past trends would continue. The result of the Postal Service's trend is incorporated in the First-Class Bulk volume forecast as a constant quarter-over-quarter reduction of -0.8%.

A consequence of using the "simple linear trend" is that recent changes in how broadband affects First-Class Bulk letter volumes are diluted, to the extent they appear at all, in the Postal Service model. The "six years" underlying the current forecast include through the first quarter of FY2010, and thus begin with 2Q FY2004. Given that the recession began in late 2007 but did not truly hit consumer spending until mid-2008 (after the FY2008 forecast had been made),[18] the only part of the recession that is included in the Internet time trend factor is FY2009 and the first quarter of FY2010. Thus, the First-Class Bulk volume

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16 *See generally id*. at 17-18.

17 *Id*. at 18.

18 Although the National Bureau of Economic Research pegs the start of the recent recession in December 2007, consumer spending did not begin to contract until mid 2008.

forecast in this case takes into account about 6 quarters of the recession – meaning that only about 1/4 of the period (6 of 24 quarters) used in creating the unweighted linear time trend may reflect (if at all) the change in how broadband Internet affects First-Class Bulk letter volume. And it is not clear whether the Postal Service's estimate of Internet diversion used to develop the FY2009 volume forecast was accurate.

In other words, to the extent that the Postal Service's estimate of the change in electronic diversion that occurred during and as a consequence of the recession in FY2008 and FY2009 – which drives how business customers use the mail and electronic alternatives today – is factored into the unweighted linear time trend in its current forecasting model, it would be via the Internet variables used in its volume forecasts in FY2009 and FY2010. It should not be assumed that those factors actually reflect the fundamental change in demand caused by accelerated electronic diversion, because the Postal Service has not shown that it does. Even if they did, however, they would be effectively diluted in the Postal Service's new volume forecast model (because the Internet diversion factor is an unweighted linear time trend) by more than four pre-recession years in which electronic diversion had yet to reach the recession-induced inflection point. Thus, the current volume forecasting model does not use an input that accounts for *current* electronic diversion.

Therefore, the new model barely, if at all, captures the recent change in how First-Class Bulk letter mailers have shifted to electronic diversion since the recession.[19] Consequently, the Postal Service's historical-based volume forecast for First-Class Bulk letters cannot accurately project volume declines going forward in the new, post-recession business environment..

3. A handful of NPPC members will reduce their Bulk letter mail volume by more pieces than the Postal Service's forecasts for the entire product

After the Postal Service filed this exigent rate request, NPPC conducted a survey of its members to ascertain how they would respond to the proposed 5.6 percent or greater price increase in 2011. *See* Sackler Declaration. Twelve NPPC members responded. Most of these members unsurprisingly indicated that even without a rate increase they would continue to convert mail to electronic delivery.

Most importantly, seven NPPC member companies, in the aggregate, indicated that they will remove 344 million *additional* pieces of First-Class Bulk mail from the mailstream in Calendar Year 2011 solely because of the rate increase. *That reduction alone exceeds the 307 million First-Class Bulk pieces that the Postal Service forecasts to lose for the entire product as a result of the exigent rate increase. Compare* Masse Statement, Attachment 11.

The estimated reduction of an additional 344 million pieces does not include any estimate from an eighth NPPC member company, which would be confronting a postage increase in the 8-figure dollar range. That company has

[19] The Postal Service's model also applies a two-year lag to the Internet factor in the First-Class Bulk product. The lag merely applies the trend (the -0.8 factor), it does not change it. Only the Internet diversion that is already baked into the underlying trend will appear over the lagged two-year period.

already decided not to raise its postage budget a penny. It will reduce its mail volume and/or its mail mix in order to meet its postage budget. That will require a substantial reduction in its First-Class mail volumes, although the amount is unknown at this time and therefore is not included in the 344 million estimate.

Only three respondents stated that they will not change their plans to reduce their use of First-Class Bulk mail solely because of the rate increases. Another has yet to determine fully how the increases in First-Class Bulk rates would affect its mailing plans.

In sum, a handful of NPPC members already plan to reduce their Bulk letter mail volumes in 2011 by a *larger quantity than the Postal Service projects for the entire rate category*. To be sure, the NPPC members' plans cover Calendar Year 2011, not merely the three quarters of the year predicted in the Postal Service's forecast, but the magnitude of the volume reductions by these seven companies alone over the entire year casts plenty of doubt on the accuracy of the volume forecasting models underlying the Postal Service's case. In addition, the planned reductions in Bulk letter mail by these NPPC members are in addition to whatever other reductions in the use of First-Class Bulk letters these companies may already have planned.

Furthermore, this 344 million piece reduction does not include any responding mail – *e.g.*, Business Reply, account payments -- that would have previously been received from customers, both business and individual, whose accounts will be taken online completely. People who receive electronic invoices do not make their payments via mail. An educated guess is that a correspondingly large quantity of such reply/payment mail also would be diverted from the system. In addition, once a customer converts to electronic delivery, that conversion typically applies to other communications, including promotional messages that today might use First-Class or Standard Mail.

Although the NPPC survey shows that the Postal Service's current First-Class Bulk volume forecast model overstates future volumes, they do confirm Mr. Kiefer's statement that many postal business customers today are:

> increasingly looking to nonmail alternatives to transact business with their customers, with the result that many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether.

Kiefer Statement at 17. The "tipping point" is here and now.

D. The Postal Service's Proposed First-Class Bulk Discounts Demonstrate Why First-Class Automation And Presort Rates Should Not Be Linked To Single-Piece Mail

Although not entirely clear, it appears that the Postal Service began setting its proposed First-Class mail rates starting with the Single-Piece stamp. Once settling on a 46 cent stamp, the Postal Service apparently considered the methodology for setting rates for the Bulk Letters/Cards product that the Commission has preferred in recent years. That methodology in effect treats Bulk rates not as a distinct product, but as merely a worksharing derivative of Single-Piece mail, driven by a mechanical setting of passthroughs (off the Single-Piece rate) of estimated avoided costs measured from a fictitious concept called Bulk Metered Mail which no mailer could purchase even if it wanted to because the rate simply does not exist.

As the Postal Service recognizes, that methodology would result in serious rate design problems. In particular, a rigid application of "100 percent passthroughs" (off of the fictional BMM cost) would convert the 4.7 percent increase for Single-Piece letters into a 9.4 percent (3.2 cent) increase for mixed AADC letters, and would increase "AADC, 3-digit and 5-digit presorted First-Class Mail prices by 3.4, 3.4, and 3.0 cents, (9.4 percent, 9.5 percent and 9.0 percent) respectively." Kiefer Statement at 25.

Although the Postal Service correctly understands that Single-Piece and Bulk rates should not be linked by a rigid formula, the 5.9 percent average increase that the Postal Service actually proposed is still grossly excessive. And that average increase includes a jump for the most heavily used rate category in the Bulk letter product – 5-digit Automation letters – in excess of 6.2 percent, above the 4 to 6 percent range desired by senior management.

The rate proposals for First-Class Bulk mail reflect the following "passthroughs" under the methodology preferred to date by the Commission:

Rate Category	**Benchmark**	**Discount**	**Cost avoided**	**Passthrough**
Automation Mixed AADC Letters	Bulk Metered Mail (BMM) Letters	**0.055**	**0.046**	119.6%
Automation AADC Letters	Automation Mixed AADC Letters	**0.024**	**0.020**	120.0%
Automation 3-digit Letters	Automation AADC Letters	**0.003**	**0.003**	100.0%
Automation 5-digit Letters	Automation 3-digit Letters	**0.022**	**0.026**	84.6%

Two passthroughs exceed 100 percent. It is important to understand what would be the rate consequences of a rigid application of a 100 percent passthrough.

First, by reducing the Automation Mixed AADC letter discount to 4.6 cents, it would raise the Mixed AADC rate by 0.9 cents *more* than the Postal Service has already proposed.

Because the Mixed AADC rate sets the benchmark on which the other discounts are set, raising the Mixed AADC by 0.9 cents would, in turn, also raise all of the other rate categories by an additional 0.9 cents as well, resulting in substantially more than the 5.9 percent increase the Postal Service proposed. An additional 0.4 cents increase would come if the Automation AADC letters discount were reduced to 100 percent, with a cumulative increase of 1.3 cents beyond the already-excessive increases proposed by the Postal Service. Such an increase could only be offset at only one rate category, and only in part, were the Automation 5-digit discount passed through 100 percent. The net effect of both would be to raise the 5-digit rate by 0.9 cents above the 6.2 percent increase already proposed by the Postal Service. As Automation 5-digit comprises nearly half of the volume in the First-Class Bulk letter/card product, that increase alone would have drastic negative effects on Bulk volumes.

These effects illustrate why a policy of “linking” of Automation and Presort rates to Single-Piece rates by discounting them from a fictional Bulk Metered Mail (for which no rate exists) is unsound and should be abandoned. That policy leads directly to above-average rate increases on the First-Class letter product that is the largest, most profitable, and most susceptible to diversion. The policy rests on a misinterpretation of Section 3622(e) of the PAEA that relegates Bulk letters to the vassal status of a workshared derivative of Single-Piece letters.

NPPC submits, however, that there is no need for the Commission to assess the proposed rates through the Section 3622(e) prism because the appropriate time to evaluate compliance, if necessary, is during the Annual Compliance Review covering the period for which the rates would be in effect. To do so now would require the unprecedented comparison of future rates to costs incurred two fiscal years previously – in particular, to assess rates for FY 2011 on the basis of costs incurred in FY 2009 – which the Commission has not done under the PAEA.

If, nonetheless, the Commission were inclined to apply a Section 3622(e) analysis at this time, NPPC submits that even the increases requested by the Postal Service would constitute rate shock. More fundamentally, NPPC submits, as it has in Docket No. RM2009-3 and in the most recent Annual Compliance Determination, that the preferred approach should be abandoned. To do otherwise would subject Automation and Presort mail to disastrous, and volume-destroying, rate shock.

1. The Commission need not apply Section 3622(e) at this time

NPPC submits that, even assuming Section 3622(e) were to apply, the time is not ripe to address it at this time. The Commission's practice under the PAEA generally is to defer final rulings on the lawfulness of rates until the Annual Compliance Determination. *See* Rule 3010.13(j) (omitting Section 3622(e) from issues to be decided during Type 1 rate adjustment); *Order Reviewing Postal Service Market Dominant Price Adjustments*, Docket No. R2009-2, at 4-6 (Mar. 16, 2009) (not accepting contention that it must reject rates not complying with traditional workshare discount design methodologies pending rulemaking); *Review of Postal Service Notice of Market Dominant Price Adjustment*, Docket No. R2008-1 at 19 (March 17, 2008) (but stating that Commission will reject at review stage a discount passthrough of 557.8 percent).

Deferring consideration of the Section 3622(e) issue would be especially appropriate to the rates proposed in this case, because, unlike in a normal ACR process, this case presents a two year mismatch between costs and rates. Here, the rates would not take effect until January 2, 2011, but the avoided costs to which they would now be compared for Section 3622(e) purposes date from the fiscal year ending on September 30, 2009, as reviewed in the FY2009 ACD. As of today, those costs already are more than 10 ½ months old. By the time of the proposed implementation on January 2, 2011, fifteen full months would have elapsed between their effective date and the end of the 12-months of costs against which they would be compared today. Why should worksharing discounts be based on Postal Service costs from two years ago for a hypothetical type of mail for which there is not now, nor has there ever been, a rate? Costs do not remain constant over that period.

Such stale data (based on costs 15 to 27 months old before the rates would even take effect) have never been used to set discounts under the PAEA because there is far less of a mismatch between costs and discounts when a rate cap adjustment is proposed. In each of the two price cap adjustments to date under the PAEA (2008 and 2009), the Postal Service filed its notice of price cap rate adjustments in February, less than 2 months after filing its Annual

Compliance Review report, and the new rates took effect in May (less than five months after the ACR is filed and even less time after the Commission issued its Annual Compliance Determination). Thus, the rate cap adjustments took effect less than nine months after the close of the fiscal year.[20]

Moreover, despite the fact that the rates and costs are in closer proximity in rate cap adjustments, the Commission typically does not even resolve Section 3622(e) compliance issues on the basis of the immediately concluded fiscal year Instead, the Commission's practice has been to assess, during the Annual Compliance Determination, the worksharing discounts against the costs incurred during the *same* 12-month period, not *preceding* periods. *See, e.g.*, 2010 ACD at Table VII-2.

The first Annual Compliance Review in which rates resulting from this case will be reviewed will start at the end of 2011. The rates and costs that will serve as the subject of that review will be from Fiscal Year 2011, ending September 30. It is plausible, even likely, that the Postal Service's costs in FY 2011 will exceed its FY 2009 costs by a sufficient amount to cover at least the discounts proposed here. This fact warrants caution in the Commission's application of Section 3622(e).

2. First-Class Single-Piece and Bulk Mail are independent products

Under current law, Bulk letters and Single-Piece letters are classified as separate products within First-Class Mail, although the Commission's recently

[20] In rate cases under the Postal Reorganization Act, costs were "rolled forward" to a Test Year to allow a comparison of rates and costs of the same "year."

preferred ratesetting methodology treats Bulk letters as nothing more than a workshared derivative of Single-Piece rates. That methodology can no longer be justified. As the Postal Service states:

> If the currently-accepted workshare methodology were followed blindly, once the Postal Service had determined the price for the single-piece stamp, the cost avoidance estimates (based on data from FY 2009) would effectively drive all automation letter prices. This strict methodology does not leave any room for judgment based on market conditions, economic climate or other factors that must be considered when pricing a flagship product.

Kiefer Statement at 16-17.

The history of this issue is tortured, beginning two decades ago when presortation was a relatively new phenomenon and automation was in its infancy.[21] At that time, it may have made sense to base presortation discounts on single piece rates. But the child has long outgrown the parent and has taken on an independent life of its own. First-Class Bulk letter volume passed Single-Piece letters in 2003, and now account more than 58 percent of First-Class letters and 45 percent of the contribution from Market Dominant Products. They have now attained such importance in the postal system and such a key role in its finances that they deserve to have rates set on the basis of the application of the full statutory factors, and not merely through the narrow lens of Section 3622(e).

First, the demand for First-Class Bulk mail today is very different than for Single-piece First-Class Mail. Bulk letter mailers and Single-Piece mailers are

[21] NPPC incorporates by reference its various comments in Docket No. RM2009-3 and in prior proceedings addressing this issue.

different entities. The former consist of larger businesses and the customers of presort bureaus, and the latter generally consist of households and some small businesses. Bulk mailers seek to reach large customer lists and, conscious of the need to minimize operating costs, make significant efforts to use clean address hygiene, optimize their mailing lists, prepare their envelopes to postal specifications, and take many other steps to make their mail efficient, cost-effective, and to qualify for the lowest possible rates. Single-Piece mailers take few, if any, of these steps, as their focus is in communicating with a small list of recipients – in many instances one at a time.

These differences are reflected by the different price elasticities of demand for Presort and Single-Piece mail. *Compare* price elasticity of Presort mail of -0.4 *with* that of Single-Piece of -0.18. USPS-R2010-4/8, Revenue and Volume Forecast Materials, Tab "Elasts."

Although postage costs comprise a significant portion of Bulk mailers' operating budgets, they are costs that are unrelated to providing the service that the business conducts.[22] Banks, other financial institutions, and communications carriers today make great efforts to shift invoices, monthly statements, and similar materials to electronic delivery to reduce operating costs and improve efficiency. Many have found that their postage costs, incurred in sending to their customers, can be reduced materially by shifting to electronic delivery. Some

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[22] The USPS Inspector General reports: "For mailers, the mail is a means to an end and is used to accomplish other goals, such as selling products and services and communicating with current and potential customers." U.S. Postal Service Office of Inspector General, *Assessment of Worksharing* at 8 (July 12, 2010). For example, a financial services company incurs postage costs in sending statements and, sometimes, in marketing. These costs, however, are unrelated to its primary business, which is the provision of financial services.

have done so gradually, but they and others rapidly are approaching the "tipping point" at which they shift large volumes in response to prices changes of the magnitude proposed by the Postal Service.

NPPC concurs with the Postal Service's observation that: "Customers pay prices, not 'discounts' and decide whether to mail or not to mail based on the total cost of mailing, including the postage paid (not just the price differential between single-piece and presort mail) and the costs of producing that mail." Kiefer Statement at 18. Bulk mailers used the 2007 to 2009 recession to invest in cost reducing business operations such as electronic presentments, the results of which the Postal Service now sees as electronic diversion. Their business decision now is between First-Class Bulk mail and electronic delivery. Still higher rates for the former only enhance the attractiveness of electronic diversion.

Second, Bulk and Single-Piece mail have significantly different postal cost characteristics. These arise from, *inter alia*, the significantly different preparation and entry requirements for the two products, the stringent address hygiene requirements imposed on Automation and Presort-rated mail, addressing and envelope requirements for presortation, barcode-related cost savings, and other differences. The Postal Service's Office of the Inspector General recently observed: "Worksharing did not simply provide discounts, it helped change the way mail was created, processed, and delivered." U.S. Postal Service Office of Inspector General, *Assessment of Worksharing* at 4 (July 12, 2010). These differences are reflected in the significantly different attributable costs per-piece for Bulk and Single-Piece letters, which in turn explain the greater unit contribution of Bulk Letters:

	Attributable Costs Per-Piece	Contribution Per-Piece
FC Bulk Letters	$0.118	$0.236
FC Single-Piece Letters	$.0258	$0.198

The substantial cost and demand differences between these two products compel the conclusion that the rate differential is simply not (or no longer is) a worksharing discount. *See 2007 Annual Compliance Determination* at 63-64 (stating that "Whether or not a rate differential is a worksharing discount may depend, in part, on whether the categories in question have substantially similar demand characteristics").

Third, for today's large First-Class mailers, whose systems have long been adjusted to maximize address hygiene, to print labels in walk-sequence, to apply barcodes, and to undertake the many other steps required for Automation and Presort rates eligibility, the choice no longer is between Single-Piece and Bulk rates (as it might have been twenty-five years ago). The 344 million or more pieces of mail that NPPC members will shift out the mailstream in 2011 if the proposed rates are implemented will not become Single-Piece mail. That product's higher prices simply are not a serious option for large business mailers with fixed mailing budgets in the millions of dollars. Neither Single-Piece nor the fictional BMM is the "category [to which] current worksharing mail would be most likely to revert if the discounts no longer outweigh the cost of performing the worksharing activities." *Opinion and Recommended Decision*, Docket No. R2006-1 at ¶5109 (*quoting Op. and Rec. Dec.,* Docket No. R2000-1, ¶ 5089).

Today, if the postage price is too high, First-Class Automation and Presort mail would "revert" to electronic diversion: email, website-based presentments, and other forms of electronic notification.[23]

Mr. Kiefer states that the "Postal Service needs the ability to price these two products without inflexible requirements on what the 'passthrough' between them should be." Kiefer Statement at 20. NPPC agrees.

3. First-Class Bulk letter rates must be reduced substantially below proposed levels to avoid a rate shock

Even assuming that Section 3622(e) applies to First-Class Automation and Presort letter rates, the proposed increases for those categories would violate two provisions of that Section. First, Section 3622(e)(2)(B) directs the Commission to allow discounts that exceed estimated costs avoided where "necessary to mitigate rate shock." Second, Section 3622(e)(3)(B), which directs the Commission not to reduce a discount if the effect would be a further increase in rates for mailers not eligible for the discount, would apply here as well.

As to the first point, there should be little dispute that a rate increase that is more than five times inflation (and more so if full 100 percent passthroughs were mandated) would constitute rate shock of significant magnitude. Even the proposed rates – and still more the rates that the rigid methodology would

[23] To be sure, Single-Piece mail also clearly has been susceptible to electronic diversion (although that diversion may take somewhat different forms – email versus website invoice presentment, for example). That both products have a common alternative does not make them reciprocal substitutes, nor does it make one a derivative of the other.

generate – range at or beyond the 4 to 6 percent increase that the Postal Service believes constitutes rate shock.

Furthermore, as shown extensively above and in the Sackler Declaration, the rates proposed by the Postal Service constitute a form of rate shock that would drive First-Class Bulk mail from the system in droves. As NPPC explained above, at the proposed rates, a handful of its members will reduce their volume of mail in calendar year 2011 alone by more than the Postal Service projects the product to decline. That is a clear sign of unacceptable rate shock.

As for the second point, the inevitable consequence of driving Automation and Presort letters from the system will be a substantial reduction in contribution. This will lead in turn to pressure to increase rates for Single-Piece mail, the mail not eligible for Automation and Presort discounts. Section 3622(e)(3)(B) directs the Commission to not reduce a discount that will cause Single-Piece rates to rise, and this provision applies to First-Class Bulk rates in this proceeding.

III. NPPC SUPPORTS THE "REPLY RIDES FREE" PROGRAM BUT IT SHOULD BE IMPROVED

NPPC supports the general concept of the Reply Rides Free ("RRF") program. Mailers have been searching for ways to derive more value from First-Class Mail, which in turn would generate more First-Class volume. The Commission should approve the proposal, with the recognition that it constitutes a start to the implementation of a commendable idea that will encourage Bulk mailers to innovate new uses for First-Class Mail, thereby potentially increasing mail volume.

However, the Commission and the Postal Service both should recognize that the proposal as it currently stands will not meet the Postal Service's goals because the Postal Service apparently plans to implement it in a manner rife with unnecessary restrictions and requirements. For example, as proposed, only letters weighing up to 1.2 ounces will be eligible for the program. This restricts the usefulness of the program to lighter mailings, thereby reducing the amount of advertising matter that may fit into the envelope, and creates a perverse incentive for mailers to *lighten* their envelopes. The limit should be raised to at least two ounces. Opening eligibility to a full second ounce would allow substantially more advertising matter into First-Class Mail. This step potentially would offset to some extent the electronic diversion of customer account mail, or perhaps even precipitate some new volume.

Another concern is that the Postal Service is conditioning participation on full IMB before many large mailers have converted to that process, which requires some expense and software enhancements that not all can afford. Even mailers currently implementing IMB will not have completed the process until well into next year, which makes participation in a program beginning on January 2 problematic.

A third problem is that the Postal Service intends to condition participation on an increase in outgoing volume from the mailer. At a time when the Postal Service is trying to stem erosion, it should not be conditioning eligibility for attractive new initiatives on unrealistic demands for volume increases. The Postal Service should take a more realistic look at its market, and consider innovative ways to recognize that the reply envelopes being inserted in an RRF mailing will, if mailed, be profitable to the Postal Service. As the proposal stands, the outgoing Bulk mailer would receive no credit for this multiplier effect.

NPPC members have been working with the Postal Service through the Postmaster General's Mailers Technical Advisory Committee and other avenues to express these concerns, and will continue to do so. In the meantime, the Reply Rides Free initiative should be approved, and the Postal Service should consider modifying the program in the future to make eligibility less restrictive and more simple.

IV. CONCLUSION

For the foregoing reasons, the National Postal Policy Council respectfully urges the Commission to find that "extraordinary or exceptional circumstances" do not exist, and to reject the proposed rate increases for First-Class Bulk letters mail as unreasonable and inequitable, and contrary to best business practices.

Respectfully submitted,

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Certificate of Service

I hereby certify that I have this 17th day of August, 2010, caused to be served the foregoing document upon the United States Postal Service and the Public Representative in accordance with sections 12 and 20(c) of the rules of practice.

William B. Baker____
William B. Baker

DECLARATION OF ARTHUR B. SACKLER

1. My name is Arthur B. Sackler, and I am Executive Director of the National Postal Policy Council (NPPC). NPPC is a trade association for large business users of letter mail, primarily in the First Class Bulk product (using almost exclusively Automation rates). Our members include: banking and financial services, telecommunications, insurance and mail services companies. I have been Executive Director of NPPC since 2003. Previously, I was involved in postal issues for many years on behalf of the Mailers Council, Time Warner Inc., and the National Newspaper Association.

2. After the Postal Service filed its request for a rate adjustment on July 6, 2010, I personally conducted a survey of a substantial number of NPPC's mailer members. Twelve of NPPC's members which create their own mail responded; I did not include in the survey any of our mail services members. The purpose of the survey was to determine how much First Class Bulk letter volume these companies would withdraw in the aggregate from the mailstream *solely because* of the rate increases proposed in Docket R2010-4 by the Postal Service. The survey was conducted from July 30 through August 5, 2010. The names of the companies I contacted must be kept confidential for competitive reasons.

3. Of the dozen companies I contacted, all but one already planned to convert a portion of their First-Class Bulk letter mail to electronic communications or otherwise substitute for the Postal Service, as a continuation of a shift to lower cost electronic communications. Not one expressed any intention to shift its Automation or Presort letter mail to Single-Piece. This means that eleven of the member companies I contacted already expect to have lower volumes of Automation and/or Presort letters in Calendar Year 2011 than in Calendar Year 2010 irrespective of the rate increases proposed. (The NPPC members that I surveyed measure their mail usage across calendar years instead of government fiscal years).

4. Of these dozen companies, three will not change their plans to reduce their use of First-Class Bulk letters solely because of the rate increases. That is, the proposed rate increases in the Automation and Presort letter rate categories, if implemented in January 2011, would not cause them to alter their planned use of those types of letter mail in that calendar year.

5. Seven companies, in the aggregate, informed me that they will remove 344 million pieces of First-Class Bulk mail (all, or almost all, in Automation rates) from the mailstream in Calendar Year 2011 solely because of the rate increase. *That is in addition to whatever other reductions in the use of First-Class mail that these companies may already have planned*. That 344 million incremental reduction in Automation letter mail volume includes only mail these companies send. The 344 million pieces do not include any responding mail from their customers, business or individual, that may be taken online or otherwise out of

the postal system in, logically, correspondingly large numbers. Nor does it include mail from other categories, notably Standard, which also leaves the mail when a customer is taken out of a postal system, in a kind of "multiplier effect" of diversion.

6. One company advised me that it has been specifically directed to reduce its postal costs by *the entire 8-figure postage increase* it would incur under the proposed 5.9 percent average increase for its First-Class Bulk letters. In other words, despite the postage increase, this company's postage budget would not increase at all. Instead, the company must reduce its mail volume and/or its mail mix in order to meet its fixed postage budget. Although it has not yet determined by how much to reduce its First-Class Automation or Presort letter volume, it would have to reduce it by some significant amount to meet its budget.

7. The last of these dozen companies has not yet determined what the effect of the proposed increases in First-Class Automation and Presort mail rates will be on its use of First-Class letters, or what mix of postage-saving actions it may take.

8. Finally, although not part of the survey, NPPC member companies have repeatedly advised me, on an *ad hoc*, but consistent, basis that they have been under intense budgetary pressure to reduce their postal costs throughout the recession. This has been fundamentally because of the general effects of the recession on their primary line(s) of business. The fact that there is an inexpensive, readily available, easily accessible, and far more acceptable to their customers than previously, alternative – broadband Internet – has facilitated that reduction in postage.

I declare under penalty of perjury that the foregoing was prepared by me or under my supervision and is true and accurate to the best of my knowledge.

Arthur B. Sackler

Dated: August 17, 2010 Arthur B. Sackler