

# POSTAL ISSUES UPDATE

AUTUMN 2007

## Implementing Postal Reform

Both the Postal Regulatory Commission (PRC) and the Postal Service (USPS) have been working diligently to comply with the requirements of the Postal Accountability and Enhancement Act (PAEA) passed last December.

The PRC issued proposed rate-setting regulations for market-dominant products on August 15, well ahead of the June 2008 deadline included in PAEA. The timing of the proposal pleased mailers, as having rate-setting regulations in place was the first step toward handling the next postal rate increase under PAEA rather than having one last case under the old cost of service regulations. The PRC has received comments on the proposed regulations from many stakeholders, and is expected to issue its final rate-making rules sometime in October.

Throughout the proposed regulations the PRC stresses that it is attempting to balance the goals of rate-setting flexibility with accountability. The PRC proposes using a moving average method to calculate the Consumer Price Index that will be used to cap postage rates at the class level. The PRC also recommends calculating the percent rate change within each class using a weighted average based on the most recently available mail volumes. This methodology will allow the Postal Service to make individual rate adjustments within a class that may be above or below the average as long as the increase for the class as a whole is within CPI.

Regarding the current proposal, the PRC notes "The proposed regulations do not seek to address every issue that might arise under the PAEA. The intent is that these regulations provide a reasonable starting point and that [they will] evolve over time." Additional regulations will be forthcoming to establish an annual review process, a complaint process, and service standards and measurements.

The Postal Service is completing its proposal for service standards for all market-dominant products. (See separate article.) It is also revising its financial reporting structure to be more like the private-sector, including compliance with the Sarbanes-Oxley Act that addresses audits, financial reporting and disclosure, conflicts of interest, and corporate governance.

By June 2008 the USPS, in conjunction with the PRC, will also need to submit a plan to Congress for meeting the new service standards, including information on performance goals, changes to the network, and a description of the long-term vision for rationalizing the postal infrastructure and workforce.

## Intelligent Mail Vision Moving toward Reality

The Postal Service's "Intelligent Mail" vision continues to move closer to reality. Intelligent Mail products and services rely on the Intelligent Mail Barcode (IMB) to uniquely identify each mailpiece. The IMB is a "four-state" barcode, which means it is constructed from four different types (or "states") of bars. Because of this enhanced symbology, an IMB can hold much more information than a similarly sized Postnet or Planet barcode. The 31 digits that comprise the IMB identify the services requested, the identity of the mailer, a unique serial number, and the delivery-point ZIP® Code.

New barcodes have also been developed to uniquely identify each tray and pallet of mail. The scanning of pallets, trays and pieces of mail will provide "end-to-end visibility" to allow mailers to follow the progress of their mail through the many stages of processing all the way to delivery.

Ultimately, the Postal Service is moving toward "Seamless Acceptance" of mail. When fully implemented, the Seamless Acceptance program will allow the USPS to verify bulk business mail through passive barcode scans as the pallets, trays and pieces move through their processing network. Their goal is to have this passive scanning eventually replace manual or MERLIN™ verification of a mailing's content at the time the mailing is presented to the USPS.

*(Intelligent Mail continued on page 3)*

## Service Standards and Measurement

As required by the Postal Accountability and Enhancement Act (PAEA) the Postal Service must issue service standards for all market-dominant products by December 20, 2007. Methods of measuring performance against those service standards must be established by June 2008. The USPS has said that it will publish its draft service standards in the Federal Register by October 19, allowing mailers a one month comment period, before incorporating those comments into final standards to be published in the Federal Register just before the December deadline.

The Mailers Technical Advisory Committee workgroup tasked with developing recommendations for service standards and measurements recently delivered its report to USPS management. The full workgroup comprised nearly 200 members, making it one of the largest workgroups in MTAC history. Members included 57 USPS officials, 63 mail owners, 53 mail service providers (including IWCO Direct), and 25 observers from the Postal Regulatory Commission, the PRC Office of Consumer Advocate and the General Accountability Office. Separate recommendations were made for each class of mail: First-Class®, Periodicals, Standard®, and Package Services.

For Standard Mail, the workgroup called on the USPS to ensure that delivery standards for Standard Mail would accurately reflect the capabilities of the processing network. The group stressed that consistent and predictable delivery is a priority for Standard Mail, noting that in many cases, early delivery is as problematic as late delivery for Standard Mail users.

The workgroup supports maintaining the existing service standards for origin-entered Standard Mail, but incorporating a range of days to those service standards. For drop ship-entered Standard Mail, the workgroup recommends a simplified service standards matrix that takes into account the type of entry (e.g., drop ship facility level) and presort (carrier route presort versus non-carrier route presort). The chart below shows the recommended standards.

Presort Type	DBMC/ ASF	DSCF	DDU	Origin Entered
Non-Carrier Route	3-5 days	2-4 days	N/A	Refer to 3D O/D Pairs Matrix
Carrier Route (Saturation)	3-4 days	2-3 days	0-2 days	Refer to 3D O/D Pairs Matrix

The workgroup also recommends an additional one-day adjustment to service standards for Standard Mail during the heavy fall mailing season (defined as September 1 through December 31) so that product user service expectations are in line with USPS service performance during that heavy volume mailing period.

Standard Mail product users emphasize that service performance goals for Standard Mail should be aggressive and reflect the volume growth and importance of this product. To that end, the workgroup recommends that a service performance goal of 95 percent be established, but if the Postal Service cannot meet that goal within its existing network capabilities and resources by the end of 2009, the USPS and product users should consult and consider the impediments to achieving the goal as well as what changes to the USPS' network capabilities are needed. The workgroup stressed the need to balance the service needs of product users with the costs of providing the service.

The workgroup also stressed the need to consider cost-effectiveness when devising measurement systems. The group encouraged the Postal Service to use its newly developed Intelligent Mail solutions as a low-cost option for gathering performance data.

The recommendations also call for ongoing review and adjustment of service standards and measurement systems on at least an annual basis.

### Mail Moment and Value of Mail Research

The Postal Service recently released interesting research on the value of mail. Among the findings are:

- I value the privacy of mail  
*75% of those surveyed agree.*
- I value the security of mail  
*68% of those surveyed agree.*
- I value the reliability of mail  
*65% of those surveyed agree.*
- I enjoy taking time to browse catalogs  
*63% of those surveyed agree.*
- I sort through mail for coupons and bargains  
*63% of those surveyed agree.*
- Mail is more private than email  
*66% of those surveyed agree.*
- Mail is more personal than email  
*57% of those surveyed agree.*

## Postal Notes

### Move Update Rules Extended to Standard Mail

The Postal Service has issued new Move Update requirements that have been expanded to include Standard Mail. The rules currently apply only to discount-rate First-Class Mail. In addition to extending Move Update to Standard Mail, the new rules also reduce the window for Move Update processing to 95 days from the current 185 days. The new requirements will take effect November 23, 2008.

Move Update for solicitation direct mail is typically accomplished through NCOALINK processing. Ask your IWCO Direct sales executive how just-in-time NCOALINK processing can improve your response rates as well as comply with these new regulations.

### Mail Volume Drops as Rates Rise

Responding to the May rate increase, Standard Mail volume dipped in the third quarter of FY 2007 (April – June) – the last quarter for which final figures are available. This resulted in a decline in total mail volume of 1.3% for the quarter. Overall Standard Mail volume for the quarter was down 1.3%, the first quarterly decline in Standard Mail volumes in five years. The decline was lead by flats, which were down 12% in June (the first full month after the rate increase). Standard Mail letters were actually up by 0.8% in June. First-Class Mail continued its volume decline, dropping 1.3% both for Q3 and YTD. The Postal Service estimates volume declines in Q4 of 2.8% for both First-Class and Standard Mail.

(Intelligent Mail continued from page 1)

The IMB can be used not only for automation processing, but can also be used for OneCode Confirm® and OneCode ACS® services. Both services are available for either First-Class Mail or Standard Mail. In order to use OneCode services, mailers must apply to the appropriate USPS office: Confirm Customer Assistance for OneCode Confirm or the ACS department at the National Customer Support Center for OneCode ACS. Mailers who choose to use the IMB only for automation processing need only obtain a Mailer ID from the *PostalOne!* Help Desk.

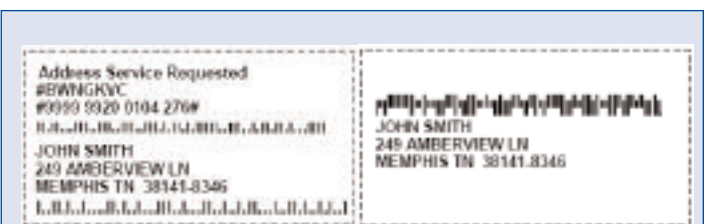
Use of the IMB is currently voluntary, but will become mandatory for automation processing in January 2009. IWCO Direct already supports use of the IMB in all operations, including commingling. Contact your sales executive or CSR for more information on incorporating the IMB into your mailings.

### House Subcommittee to Hold Hearing on Effects of Postal Rate Increase

On October 30, the House Subcommittee with jurisdiction over the Postal Service has scheduled a hearing to address the question “Will Increased Postal Rates Put Mailers Out of Business?” The hearing will consist of three panels of witnesses representing postal service management, catalog and magazine publishers, and mailing service providers. The purpose of the hearing is to explore concerns that the May 2007 postal rate increase is hurting mailers and to discuss how future rate cases may be handled to better take into account the real-life impact rate hikes have on the mailing community.

### Letter Carriers Union Ratifies Contract with Postal Service

City letter carriers, members of the National Association of Letter Carriers (NALC), have ratified a five-year contract with the US Postal Service. NALC is the third of four major unions to reach agreements with the USPS. The American Postal Workers Union (APWU) and the National Postal Mail Handlers Union (NPMHU) reached agreements with the USPS in December 2006. Negotiations with the fourth union, the National Rural Letter Carriers Association (NRLCA), have gone to arbitration, with hearings scheduled to begin October 29.



Use of the Intelligent Mail Barcode allows mailers to more efficiently use the “real estate” on the front of their mailpiece. Using traditional symbology, a mailpiece requiring automation processing, Confirm tracking, and ACS address update would need two barcodes (Postnet and Planet) as well as additional keylines for ACS. With the IMB, all that information is expressed as a single barcode.

## Postal Service Projects \$5.4 Billion Loss for FY 2007

Postal Service CFO Glen Walker reported to the Board of Governors at their September meeting that the USPS anticipates a net loss of \$5.4 billion for fiscal 2007 on revenue of \$75 billion and expenses of \$80.4 billion. Management attributed these results to one-time costs associated with the Postal Accountability and Enhancement Act (PAEA). For the year ended September 30, the projected \$5.4 billion loss included \$1.5 billion in income from operations and a \$6.9 billion "negative financial impact" from PAEA.

For fiscal 2008 the USPS has projected revenue of \$78.2 billion and expenses of \$78.8 billion (including escrow/pension adjustments), resulting in a net loss of \$600 million.

Total mail volume for fiscal 2007 is about 212 billion pieces (off about one billion pieces from 2006). Volume for 2008 is projected to be essentially flat at 212.3 billion pieces. Standard Mail volume is forecast to increase 1.1% in 2008 while First-Class Mail is forecast to decline by 0.6%.

### What's in store for the next rate case?

In announcing its integrated financial plan for FY 2008 the USPS said the figures were based on current rates and it had not yet made a decision on future prices. In his National PCC Day address, Postmaster General Jack Potter also confirmed that no decision has been made on the timing or method of the next rate adjustment. He went on to say, "If I had my druthers, I would like to see changes made under the new regulations." Postal industry associations are continuing informal negotiations with USPS management to encourage them to move forward under the new price-cap system, especially since the Postal Regulatory Commission has now issued preliminary regulations to support such a move..

	FY 2007 Est.	FY 2008 Plan
<b>Financials</b>		
Total revenue	\$75.0 billion	\$78.2 billion
Operating expense	\$73.5 billion	\$77.8 billion
Income from operations	\$1.5 billion	\$400.0 million
Escrow/pension adjustments	(\$6.9 billion)	(\$1.0 billion)
Net loss	(\$5.4 billion)	(\$600.0 million)
<b>Volume</b>		
Total mail volume	212.0 billion	212.3 billion
First-Class mail volume	96.0 billion	95.4 billion
Standard mail volume	103.1 billion	104.2 billion

FY 2007 Escrow/ Pension Adjustments	Budget Impact
Payment of restricted cash from FY 2006 into Retiree Health Benefit Fund (RHBF)	(\$3.0 billion)
2007 payment into RHBF	(\$5.4 billion)
No longer required to pay employer's share of CSRS contributions	\$1.5 billion
Total impact of adjustments	(\$6.9 billion)

## Draft Rules Issued for Address Placement on Flats-Sized Mailpieces

The USPS has released a Federal Register notice on addressing standards for flats mailed at automation discounts. These rules are in support of the deployment of Flats Sequencing Systems (FSS) to processing plants over the next several years. These machines sort flats into delivery sequence so carriers won't have to spend time sorting them.

For flat-sized pieces in envelopes, the top edge of the mailpiece is defined as either of the shorter edges. If the

address is parallel to the top edge, the entire address block must appear within 3" of the top of the mailpiece. If the address is perpendicular to the top edge, one edge of the address block (first or last possible character) must be within 2-1/2" of the top of the mailpiece. On all pieces, the address block must be at least 1" closer to the top than to the bottom of the piece.

The USPS will accept comments on these proposed regulations through December 10.

