POSTAL ACTION ALERT

KEEPING YOU INFORMED ON IMPORTANT POSTAL ISSUES.

Released March 6, 2018

In a previous Postal Action Alert (*issued on December 6, 2017*) – RR Donnelley communicated a summary of the Postal Regulatory Commission's (PRC) 10-year review of the system for regulating rates and classes for **Market Dominant** postal products. As a reminder, this review was mandated by postal law enacted back in December of 2006, known as the Postal Accountability and Enhancement Act or PAEA for short. As a result of these actions, the PRC issued a **Notice of Proposed Rulemaking (RM2017-3; Order 4258)** to address the law's shortcomings. Listed below is a brief summary of the major recommended changes:

1. The price cap per class of mail will go from just CPI-U to CPI-U + 2% for the next five years. After five years, the PRC will reevaluate the financial health of the USPS and recommend appropriate changes.

2. There is a provision for an additional 1% Performance Based price increase that the USPS will be eligible for such that
   - ✓ 0.75% of the amount can be used if the USPS demonstrates certain operational efficiencies.
   - ✓ 0.25% of the amount can be used if the USPS demonstrates improved service quality.

3. The USPS will be required to raise prices for underwater products (Periodicals and Standard non-C/R Flats for example) a minimum of an additional 2% above the price change authority to move prices towards full-cost coverage over time.

4. The USPS will have new restrictions on worksharing passthroughs:
   - ✓ For Periodicals, the passthrough will be limited to 75% - 125% of avoided costs.
   - ✓ For all other classes, the passthrough will be limited to 85% - 115% of avoided costs.

   Note: Non-compliant passthroughs would be subject to a 3-year grace period.

The PRC also invited interested and concerned parties to submit comments to the **Notice of Proposed Rulemaking** by March 1, 2018. Listed below was RR Donnelley's formal response to the PRC, which incidentally was shared in principal by a majority of mailing industry associations, as well as independent mail owner and mail service provider companies.

RRD Formal Response

March 7, 2018

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 2000
Washington, DC 20268-0001

RE: 10-Year Regulatory Review (RM2017-3)

Dear Commissioners,

I am writing to you on behalf of RR Donnelley (RRD), one of the country's largest producers of commercial mail in both the market dominant and competitive product lines. Our organization proudly provides marketing and business communications services and solutions to more than 50,000 companies globally, employs more than 43,000 people, and operates mail production and mail distribution activities at more than 75 manufacturing facilities across the U.S. and Puerto Rico.

As a 150-year-old company, a significant portion of our business—and the success of our customers' businesses and the communities they serve—has long depended on a viable and affordable Postal Service. Naturally, its ability to remain viable has required it to evolve alongside the economy, as well as commercial and consumer needs. We have respected the decisions made by the U.S. government—financially, operationally and regulatory—in order to ensure the Postal Service's long-term stability. In the face of these changes, RRD and other mail service providers, logistics and transportation companies have recognized and embraced our supply chain work-sharing relationship with the Postal Service and mail owners – and have made necessary capital investments to reduce costs, improve workflow, and increase throughput efficiencies as a result.

However, after careful evaluation of the Postal Regulatory Commission's (PRC) latest report and proposed changes, not only do we strongly oppose the remedies outlined in Order 4258, we believe these changes—including a proposal to increase postage costs by an

estimated 27% for letters and 40% for some flats over a five-year period—could prove disastrous to the commercial mail industry, driving both critical volume and revenue out of the Postal Service all together. This is something that our clients—who heavily rely on the Postal Service to conduct business and communicate with their customers—are legitimately concerned with. For many, the proposed rate increases may eventually become cost-prohibitive and serve as a catalyst for reduced mail volume and migration to alternate channels and delivery methods.

Additionally, we believe that the Commission's arbitrary modification of work-share discounts be reconsidered not only with more accurate cost-avoidance analysis, but should include the indirect positive implications in managing postal machine and labor resources, as well as service performance.

For these reasons, we strongly urge you to reconsider your recommendation to permit the rate increases, as well as changes in work share discount structures. The remedies offered by the Commission are a singular, Band-Aid fix to multi-faceted, persistent problems within the Postal Service. We stand united with other mail industry groups, entities and corporations who believe there is a better path forward to achieve sustained financial stability within the Postal System. Drastic price increases amid weak demand just isn't one of them.

Regards,

Brian Lundberg

President
RR Donnelley Logistics

As of 4pm, March 1, over 80 sets of comments in excess of 1,000 pages have been filed with the PRC. The next phase will be a **reply comments period** which ends on March 30, 2018. During this phase commenters will be able to critique (positively or negatively) the comments made by other commenters.

After March 30, the PRC, which is currently comprised of 4 commissioners, will then deliberate on the materials presented and reach one of the following outcomes:

- At least 3 commissioners agree on the recommendations as **originally** proposed or
- At least 3 commissioners agree on a **revised** set of final recommendations or
- At least 3 commissioners agree on a **revised** set of recommendations for a **new round of reconsideration** by the industry or
- There is a tie (2 to 2) in which case the status quo remains

Industry legal pundits expect that this deliberation will likely take several months and not end until late summer. RR Donnelley will monitor these events and provide additional updates as needed.