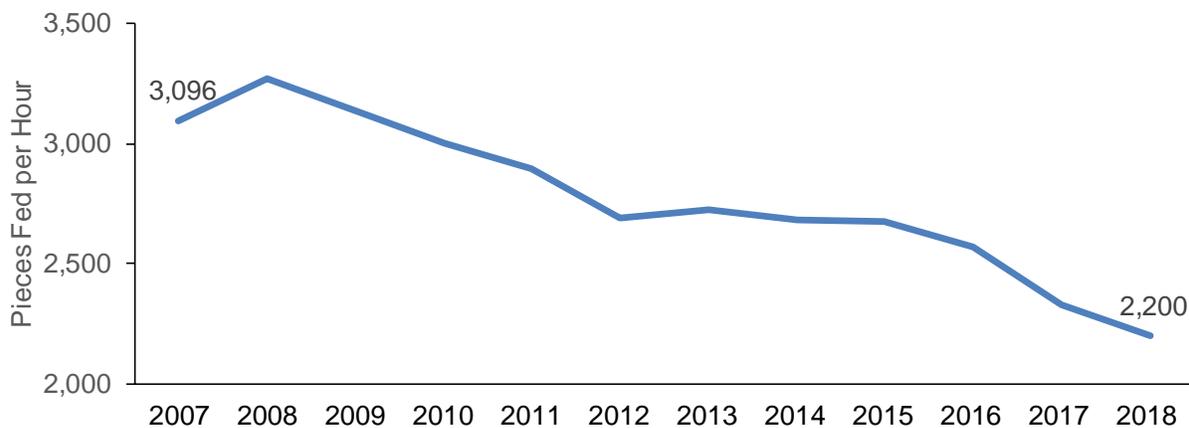


costs and must implement effective cost-cutting measures to bring the efficiency of its flats operations back to pre-Flat Sequencing System (FSS) levels. Further, with the continuing deterioration in flats productivity, it is more important than ever that the PRC require the Postal Service to set workshare passthroughs at or near 100 percent to promote lowest combined costs.

USPS Poor Performance for Flats Continues Unabated

The 2018 ACR shows that the Postal Service’s performance for flats in FY 2018 reached new lows. Productivity on the AFSM 100 – still the Postal Service’s workhorse flat sorting machine – dropped another 6.4 percent¹ in FY 2018 and is now 29 percent below FY 2007 levels.

Figure 1—AFSM 100 Productivity



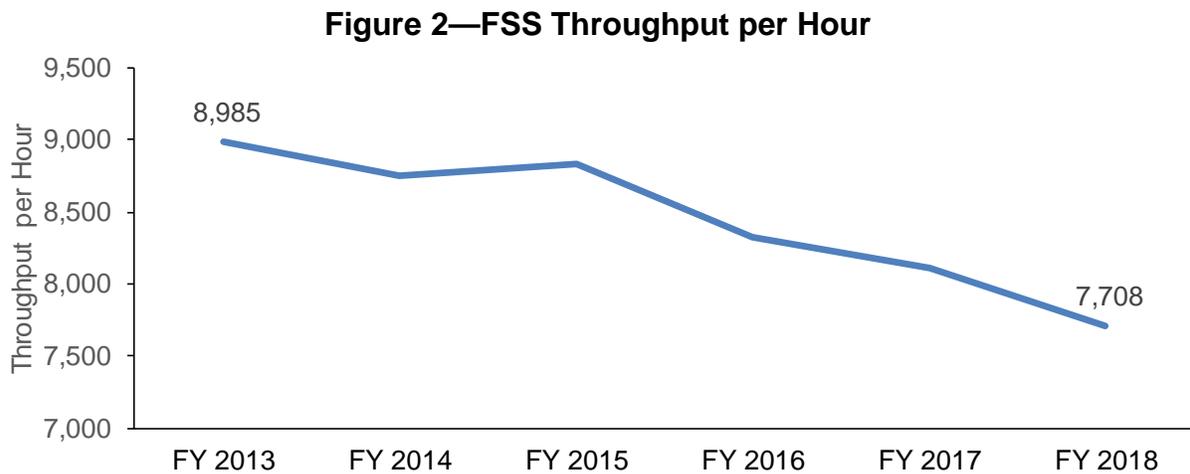
Source: MPA-LR-1

The Postal Service blames this productivity decline on lost economies of scale, just as it did last year. This excuse, however, is inconsistent with the accepted costing approach (which treats mail processing operations as essentially 100 percent variable)

¹ Docket No. ACR2018 at 28.

and belied by the facts. In FY 2018, AFSM 100 workhours did not just decrease a little slower than total pieces fed (TPF), but actually grew while AFSM 100 TPF declined by five percent. See Docket No. ACR2017, USPS-FY17-23, YRscrub2017.xlsx, row 85 and Docket No. ACR2018, USPS-FY18-23, YRscrub2017.xlsx, row 85.

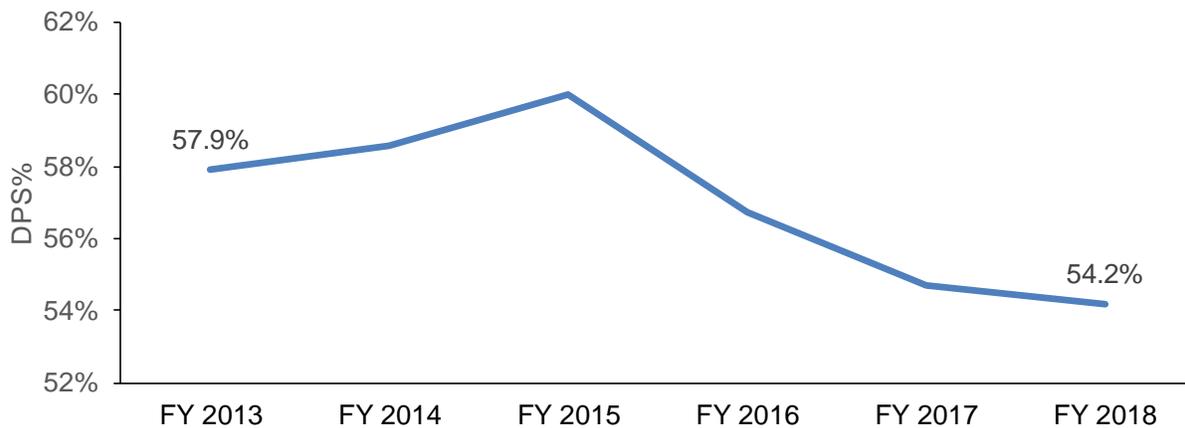
The Postal Service’s FSS Scorecard tells a similarly bleak story, with USPS performance worsening on three of the four FSS Scorecard metrics presented in the Annual Compliance Review. FSS throughput per hour has declined in each of the last three years and is now 14.2 percent below FY 2013 levels.



Source: MPA-LR-1

Similarly, the percentage of pieces sorted by FSS to delivery point sequence has declined for the third consecutive year and is down 6.4 percent since FY 2013 and 9.7 percent from its FY 2015 peak.

Figure 3—FSS Delivery Point Sequence (DPS) Percentage



Source: MPA-LR-1

FSS leakage – FSS candidate pieces that were processed on other automation equipment or dispatched to the delivery unit as working volume – increased nine percent between FY 2017 and FY 2018, from 20.1 to 21.9 percent.² Meanwhile, Periodicals Outside County transportation costs per pound continue to increase much faster than inflation. In FY 2018, they increased by another 14 percent, seven times the increase in the CPI and twice the increase in the general freight trucking cost index.³

These persistent and troubling trends confound and strike fear in periodical publishers. That USPS workhours on its machines increased while total pieces fed simultaneously decreased evidences this inefficiency. The Postal Service’s failure to turn around these distressing trend lines after years of Commission and mailer-expressed consternation is similarly inexplicable.

Workshare Discount Passthroughs Must Approach 100 Percent

Given the continuing deterioration in USPS performance, it is more critical than ever that publishers be provided with an efficient cost-based incentive to bypass the

² Docket No. ACR2018 at 29.

³ MPA-LR-1.

Postal Service's costly mail processing and transportation networks by entering their magazines at destination facilities and presorted to Carrier Route. That type of mail preparation is the most efficient for the Postal Service to handle. Unfortunately, the trend in the workshare passthrough for this mail has deteriorated again this year. In 2018, the Carrier Route Basic discount was only 49.3 percent⁴ of avoided costs, down from an already very low 51.7 percent⁵ in FY 2017. We have explained in other dockets that the Postal Service's refusal to offer economically-supported and adequate incentives to encourage highly efficient Carrier Route preparation of Periodicals Mail substantially and needlessly inflates the costs of flats mail generally and Periodicals mail in particular. Docket No. R2019-1, Comments of MPA (Oct. 30, 2018) at 3. Indeed, the Commission itself has already acknowledged that passthroughs below 100 percent "send inefficient pricing signals to mailers" and has stated that "[p]assthroughs set as close as possible to 100 percent promote pricing efficiency." ACD2017 (Mar. 29, 2018) at 15.

The Commission can, and should, direct the Postal Service to immediately pass through as close to 100 percent of the Carrier Route Basic cost avoidance as possible, both as a conclusion in its 2018 Annual Compliance Determination and, ultimately, in its decision in Docket No. RM2017-3. Industry experts detailed in the RM2017-3 docket that passing through the entire Carrier Route Basic cost avoidance will encourage huge increases in comailings and substantial reductions in Periodicals costs (as the per-piece

⁴ MPA-LR-1. The seventy percent Carrier Route Basic passthrough USPS presents in USPS-FY18-3 is mistaken because the cost avoidance used in the calculation reflects only the mail processing cost avoided by Carrier Route presort.

⁵ Docket No. ACR2017, USPS-FY17-3, FY17.3. WorksharingTables_Final.xls, "Periodicals Outside County", cell O10.

cost savings from converting a 5-Digit Automation Flat to Carrier Route Basic is 21.0 cents per piece).

[T]he low passthrough underlying the Carrier Route Basic discount has limited the growth in co-mailing and caused flats processing to be more costly for the USPS than it should be. Passing through the entire Carrier Route Basic cost avoidance would result in massive growth in the number of publishers and marketers that participate in co-mailing, and a substantial improvement in the end-to-end efficiency of the flats mailstream overall.⁶

The potential for very significant cost savings stands in contrast to recent rate design changes, such as those aimed at encouraging FSS Scheme and 5-Digit Carrier Routes pallets, which have had little effect on Periodicals finances. The mail mix changes caused by recent rate design changes that the Postal Service touts in the FY 2018 Update to Periodicals Pricing Report (USPS-FY18-44) improve Periodicals Outside County finances by only \$0.001 per piece, about 0.2 percent of attributable costs. MPA-LR-1. Passing through 100 percent (or close to it) of the Carrier Route Basic cost avoidance will translate into real, measurable cost savings and help the Postal Service retain the most efficient Periodicals mail. Despite the Postal Service's poor performance for flats, Carrier Route Periodicals have a cost coverage of 104 percent. When one includes the large positive contribution from the First-Class Mail and Marketing Mail that Periodicals Mail generates (acknowledgements, renewal notices, invoices, and solicitations), this cost coverage increases to 134 percent.⁷

⁶ Docket No. RM2017-3, Comments of ANM *et al.* (March 20, 2017), Declaration of Quad/Graphics at 3.

⁷ Docket No. RM2017-3, Comments of ANM *et al.* (March 1, 2018) at 108, Table 6; MPA-LR-1.

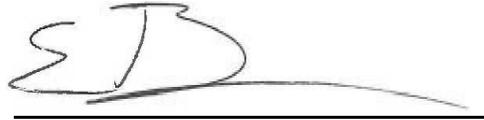
Conclusion

That the USPS has dropped the ball on flats cost-cutting is by now well-established. In its last Annual Compliance Determination Report, the Commission noted its “continued concerns” with the Postal Service’s inability to quantify its flats cost reduction initiatives. ACD2017 at 59-60. The Postal Service’s Office of Inspector General has described as “troubling” the fact that the Postal Service lacks any studies or analyses of the operational costs and benefits of the FSS. See “FSS Comes up Short,” available at <https://www.uspsoig.gov/blog/fss-comes-short>. Indeed, the OIG found USPS management’s comments to recommendations regarding the FSS to be “unresponsive.” Office of Inspector General, United States Postal Service, “Flats Sequencing System Performance in the Capital Metro Area” (Report Number NO-AR-18-008), July 26, 2018, at 11.

The Commission cannot allow the Postal Service’s inattention to flats’ costs to continue unabated. In addition to finding the continuing deterioration in flats processing efficiency unacceptable and insisting on full passthrough of carrier route savings in this docket’s ACD, we continue to urge that the Commission’s consideration of any cost coverage remedies must be held in abeyance until: (1) the Postal Service returns flat sorting productivities and real unit transportation and carrier costs to 2007 levels; and (2) promotes efficient mail preparation by passing through 100 percent of Carrier Route Basic cost avoidance. Docket No. RM2018-1, Response of MPA and ANM to Notice of Inquiry No. 1 (Oct. 1, 2018) at 7; ANM *et al.* Comments in Docket No. RM2017-3, at 107. We also continue to support abandonment of the failed FSS experiment. The painful cost consequences of FSS implementation have proven all too clear. It is long beyond time

to hold the Postal Service's feet to the fire to ensure a future for flats mail within the postal system.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'ESB', with a long horizontal line extending to the right from the end of the signature.

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*Counsel to MPA – The Association of
Magazine Media and the Alliance of
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