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POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Report, 2018 Docket No. ACR2018

REPLY COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION

(March 1, 2019)

The Parcel Shippers Association (PSA) respectfully replies to the initial comments submitted by United Parcel Service (UPS) and related comments submitted by groups that echo the UPS arguments.[1] Once again UPS criticizes cost methodologies that have been repeatedly reviewed, improved, and prescribed by the Commission (*see* Table 1 below). Here UPS asserts:

> The cost methodologies that underlie the Postal Service's ACR for FY2018, however, do not reflect this dramatic shift in the Postal Service's focus [from letters to parcels]. Instead, for cost attribution purposes, the Postal Service continues to treat parcel delivery as a minor appendage to its letter mail operations, rather than accounting for the many ways in which parcel delivery is today a primary driver of the enterprise's overall operations.

UPS Comments at 2.

First, this assertion shows a fundamental misunderstanding of Postal Regulatory Commission approved cost methodologies. Under these approved methods, Postal Service costs are generally distributed to products using sampling systems (e.g., the In-Office Cost System). As the distribution of Postal Service volume and workload shifts, e.g., among letters, flats and parcels, the sampling systems necessarily pick up the

[1] Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2018 (February 19, 2019)("UPS Comments"); Comments of Taxpayers Protection Alliance (January 31, 2019)("TPA Comments"); Comments of Small Business & Entrepreneurship Council (January 31, 2019)("SBE Council Comments"); Comments of American Consumer Institute Center for Citizen Research (January 31, 2019) ("ACI Comments"); Comments of National Taxpayers Union (February 25, 2019)("NTU Comments").

"shift in the Postal Service's focus." No methodology change is needed for the effect of these shifts to be captured by postal costing systems. They already are.

Second, the Commission is responsible for ensuring that "the Postal Service's ACR for FY2018 [reflects] this dramatic shift in the Postal Service's focus [from letters to parcels]." UPS Comments at 2. The Commission has not been asleep on the job here. Through its rulemakings the Commission regularly reviews and approves changes to methods that have been shown to improve the accuracy of Postal Service cost estimates. In fact, as shown in Table 1, below, the Commission has approved 45 costing methods changes in just the last 5 years.

Table 1. Number of Approved Costing Method Changes by Fiscal Year

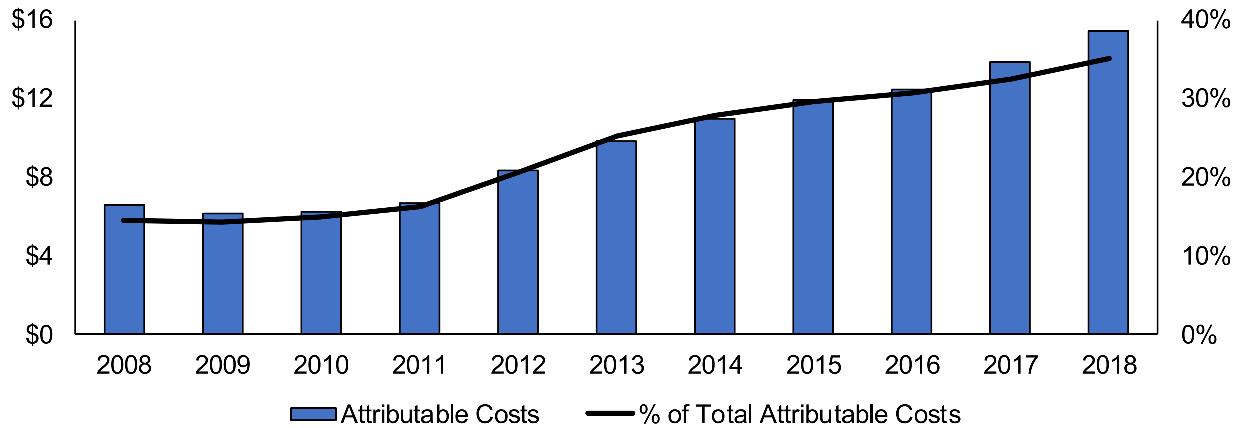
Fiscal Year	**# of Approved Changes**
FY 2018	7
FY 2017	4
FY 2016	2
FY 2015	17
FY 2014	15

Source: FY 2014–FY 2017 Annual Compliance Determination Reports & USPS-FY18-9

Furthermore, even a cursory review of the Postal Service's FY 2018 Public Cost and Revenue Analysis ("Public CRA") demonstrates the inaccuracy of UPS's assertion that "parcel delivery [is being treated] as a minor appendage to [USPS's] letter mail operations." UPS Comments at 2. In FY 2018, competitive product attributable costs totaled $15.5 billion, comprising 35.2 percent of total attributable costs. As Figure 1 shows, both of these figures have increased substantially over the last decade, reflecting the increasing role of parcels in USPS "overall operations."[2]

[2] Note that competitive product attributable costs have increased at a somewhat lower rate than competitive product volume due to a substantial increase in the percentage of competitive product volume that lower-cost Ground (primarily DDU) volumes comprise (from 17 percent in FY 2009 to 55 percent in FY 2018).

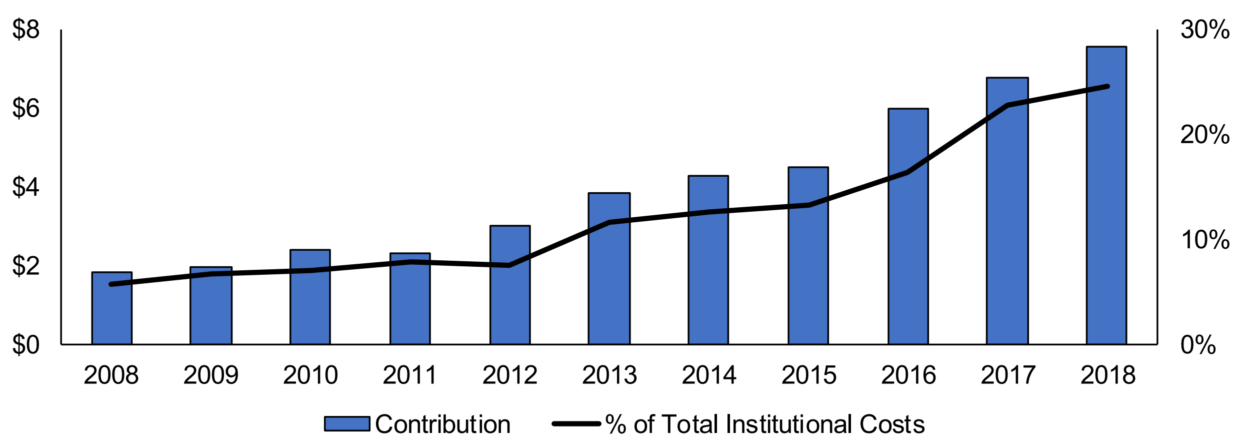
Figure 1. Competitive Product Attributable Costs (in Billions)



Source: FY 2008 – FY 2018 Public CRA Reports & FY 2017 PRC-LR-ACR2017-1

Even taking into account this growth in the attributable costs of competitive products, the increased importance of parcels in overall operations substantially improved Postal Service finances. As Figure 2 shows, due to a combination of package volume growth and rate increases, the contribution of competitive products has increased by $5.7 billion over the past decade, from $1.8 billion to $7.6 billion, and now represents 25 percent of institutional costs.

Figure 2. Competitive Product Contribution (in Billions)



Source: FY 2008 – FY 2018 Public CRA Reports & FY 2017 PRC-LR-ACR2017-1

Finally, TPA, SBE Council, ACI, and NTU rehash arguments – advocating for fully-allocated costing and a higher minimum contribution requirement[3] – that were presented to and rejected by the Commission in its recently-concluded statutory review of the minimum contribution requirement (Docket No. RM2017-1) where the Commission found:

> As noted in Order No. 4402, any attempt to assign a proportion of institutional costs to competitive products, such as competitive products' proportion of attributable costs, revenue, or some other devised proportion, presents multiple problems. This suggestion is equivalent to fully-allocated costing, which has previously been rejected as being inherently arbitrary. It also fails to take into account the prevailing competitive conditions in the market and other relevant circumstances, as required by section 3633(b). (citations omitted).

Docket No. RM2017-1, PRC Order No. 4963 at 146-47.

There is no need to revisit those issues in this docket.

Respectfully submitted,

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[3] See, e.g., ACI Comments at 3-4; TPA comments at 2; SBE Council Comments at 2; NTU Comments at 2.