Postal Regulatory Commission
Submitted 3/1/2019 4:09:56 PM
Filing ID: 108368
Accepted 3/1/2019

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

ANNUAL COMPLIANCE REVIEW, 2018	Docket No. ACR2018

POSTAL SERVICE REPLY TO UPS AND POSTCOM COMMENTS
(March 1, 2019)

In Order No. 4998, the Commission set deadlines of February 19, 2019 for United Parcel Service, Inc. (UPS) and the Association of Postal Commerce (PostCom) to comment on the Postal Service's Annual Compliance Report (ACR) for Fiscal Year (FY) 2018, and March 1, 2019 for the Postal Service to reply.[1] The Postal Service replies below.

I. UPS's Comments Are Largely Outside the Scope of this Docket and Lack Merit

UPS's comments make numerous points about costing that are neither within the scope of an Annual Compliance Determination nor correct. For example, consider the following from UPS's introductory section:

> Although Postal Service executives have repeatedly acknowledged that delivering competitive products is a top priority for the organization, and although these products now make up ***45%*** of what the Postal Service delivers in volume by weight, the Postal Service continues to attribute a very low level of its costs to competitive products. In FY2018, for example, the Postal Service attributed just ***18%*** of its costs to competitive products.[2]

The cited attributable costs percentage is not accurate. To support the figure, UPS

---

[1] Order No. 4998, Ordering Granting Motions for Access, Docket No. ACR2018 (Feb. 8, 2019), at 29; United States Postal Service FY 2018 Annual Compliance Report, Docket No. ACR2018 (Dec. 28, 2018) [hereinafter "FY 2018 ACR"].

[2] Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2018, Docket No. ACR2018 (Feb. 19, 2019), at 3 (emphasis in original, footnotes omitted) [hereinafter "UPS Comments"].

cites the Cost Segments and Components Report in USPS-FY18-2. That report, however, does not present attributable costs, but rather only a subset of attributable costs, namely, volume variable costs. Moreover, even for volume variable costs, the 18 percent cited by UPS does not pertain to total competitive products (as does the 45 percent figure for weight), but rather only to domestic competitive products. In order to correctly express the attributable costs for all competitive products as a percentage of total accrued costs, UPS should have used the Cost and Revenue Analysis (CRA) report: the applicable percentage would have been 21 percent rather than 18 percent.

More importantly, the juxtaposition of the competitive product share of total weight with the ratio of competitive product attributable costs to total accrued costs is misleading. The market dominant and competitive shares of total weight necessarily total to 100 percent. In contrast, because of institutional costs, the attributable costs of market dominant and competitive costs do not total to 100 percent of total accrued costs. Consequently, excluding institutional costs, the attributable costs for total competitive products expressed as a percentage of total attributable costs shown in the CRA is 35 percent.[3]

Moving on to the main body of its comments, UPS's discussion of peak season costs is based on an underlying premise that is not sound.[4] UPS suggests that most if not all of the peak seasonal variation in cost is caused by competitive products, because of the high number of packages delivered, "combined with the fact that letter

---

[3] Even more fundamentally, in response to questions posed by UPS in this proceeding, the Postal Service has already explained how weight is used in the cost attribution and distribution process. Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request (ChIR) No. 5, Question 1 (Feb. 5, 2019). UPS's efforts to imply that one should expect a close relationship between share of weight and share of attributable costs seem to be another thinly-veiled attempt to lay the foundation for fully distributed costing.

[4] *See* UPS Comments at 5-8.

mail [i.e., non-package] volumes remain flat during this period."[5] To support this claim, it selects one month of non-peak volumes (April) to compare with December volumes. This analysis is unduly truncated, and not necessarily representative for purposes of the apparent objective of the exercise. Examining FY 2018 Revenue Pieces and Weight (RPW) data from throughout the year (presented in USPS-FY18-42) demonstrates that market dominant volumes in fact are not "flat" during the peak season. Comparing Quarter 1 RPW volume totals with FY 2018 volume totals, both market dominant and competitive products peak during this period. UPS's arguments oversimplify the facts to the point of distortion.[6]

Similarly, while it is true that the share of competitive products has increased over the past few years, it is misleading to claim that parcel delivery is a primary driver of the Postal Service's operations overall.[7] Two facts illustrate this point. One, according to the RPW report presented USPS-FY18-42, competitive products volume in FY 2018 was 5.7 billion pieces, or 3.9 percent of the originating volume handled by the Postal Service.[8] Two, the Postal Service potentially serves 159 million delivery points

[5] *Id.* at 6.

[6] UPS on page 7 repeats the same plea it made last year to require date and time stamp information within the data collection system materials, but fails to acknowledge the footnote on page 26 of the Postal Service's Reply Comments last year indicating that the date a test is conducted is already a field in the IOCS and TRACS data files provided. Moreover, as UPS essentially concedes in footnote 22, knowing the date is insufficient to overcome the fact that the samples were not designed to support monthly reporting.

[7] *See* UPS Comments at 2.

[8] Note that, with regard to the above discussion of the misguided attempt by UPS to contrast the attributable cost share of competitive products to the competitive products' weight share, UPS avoided any reference to the competitive products' volume share. One possible explanation for this oversight is because the volume share is only a small fraction of the weight share, and is substantially below the attributable cost share as well. These facts indirectly underscore the well-known arbitrary character of fully distributed costing.

daily.[9] Under the assumption of 303 delivery days and uniform distribution of competitive products across delivery points and delivery days, these statistics suggest that, on average, only 11.8 percent (5.7 Billion pieces / (159 Million delivery points times 303 delivery days)) of the delivery points are receiving a competitive product on any given delivery day during the year. But even this estimate is too high, because research has continually shown that mail volumes, both market dominant and competitive, are not uniformly distributed across delivery points (e.g., certain delivery points are prone to get multiple packages per delivery day). The delivery of market dominant products across the Postal Service's universal delivery network continues to be the primary driver of the Postal Service's overall operations.

While questioning the depreciation costs associated with new handheld scanners, UPS cites an Office of Inspector General (OIG) report to support the proposition that the scanners "were purchased for the very purpose of tracking package deliveries."[10] The first page of the cited OIG report undercuts that assertion:

> The Postal Service's goal is to scan all barcoded mailpieces (flats, letters, and packages) that enter the mailstream and track those items with additional scans up to the point of delivery. Scanning accuracy is critically important to the success of real-time visibility.

Carriers use the handheld scanners for both market dominant and competitive products. As two of many examples, carriers scan a barcode before leaving the office when they are delivering Saturation mail, or when delivering market dominant accountable mail. And the scanners have functions beyond piece tracking: for example, their Global Positioning System (GPS) functionality allows management to accurately locate carriers

---

[9] *See* FY 2018 Annual Report, USPS-FY18-17, at 11.

[10] UPS Comments at 3-4.

in the event of an emergency (e.g. car accident, flat tire, medical issue, etc).

Relitigating Docket No. RM2017-1, UPS calls the appropriate share requirement so low as to be “effectively meaningless,” and goes on to note that the Postal Service is seeking the latitude to raise market dominant rates beyond the current price cap.[11] The unstated implication is that the Postal Service is seeking to treat competitive product mailers more favorably than mailers of market dominant products. Any such suggestion is incorrect, for in recent years competitive rate increases have generally exceeded corresponding market dominant rate increases by a factor of two or more.[12]

UPS seeks to alter the treatment of certain data regarding International Mail customarily filed under seal in ACR proceedings.[13] On the one hand, it asserts that “top line, aggregated” revenue, volume, cost, and contribution data for Inbound Letter Post are not commercially sensitive. To the extent that the “top line” types of data referenced are already disclosed in the public CRA, the Postal Service does not disagree. But UPS further concedes that once information is considered below aggregate Inbound Letter Post data to data disaggregated by country group, potentially harmful disclosure regarding international partners is a concern.[14] UPS is correct to acknowledge that concern, which is only amplified now that part of Inbound Letter Post has been conditionally transferred from market dominant to competitive.[15]

---

[11] *Id.* at 4.

[12] *Compare* Order No. 4208, Docket No. CP2018-8 (Nov. 7, 2017) at 3, with Order No. 4215, Docket No. R2018-1 (Nov. 9, 2017) at 2; and Order No. 4876, Docket No. CP2019-3 (Nov. 13, 2018) at 3, with Order No. 4875, Docket No. R2019-1 (Nov. 13, 2018) at 2.

[13] UPS Comments at 18-19.

[14] *Id.*

[15] It should also go without saying that disclosure of disaggregated information about international mail would not only present a genuine risk of commercial harm to international partners, but also to the Postal Service itself.

II. PostCom's Comments Do Not Raise Relevant Compliance Concerns That Can Be Addressed in this Proceeding

PostCom raises a number of points relating to workshare discount passthroughs. First, it argues that the Commission and the Postal Service are too focused on reducing passthroughs to 100 percent (or less) of avoided costs.[16] Noting that the Postal Service reduced destination entry discounts for USPS Marketing Mail Letters in the most recent price case, PostCom states that the expected result of these changes would be for more mail to be entered further upstream; however, PostCom believes that many mailers will choose to continue using destination entry rather than moving their volume further away from its destination.[17] PostCom also contends that because Section 3622(e) specifically allows workshare discounts to exceed avoided costs where reduction or elimination of the discount would impede the efficient operation of the Postal Service, these discounts are fully compliant, and the Commission's focus on reducing them below 100 percent tends to discourage efficient mail preparation, entry, and processing.[18]

Workshare discounts that exceed 100 percent of avoided costs but also satisfy the operational efficiency exception (or other exceptions) described in 39 U.S.C. Section 3622(e) are lawful under the Postal Accountability and Enhancement Act (PAEA), as PostCom correctly notes. PostCom's suggestion that the Postal Service has consistently prioritized pricing efficiency over operational efficiency, however, is

[16] Comments of the Association for Postal Commerce, Docket No. ACR2018 (Feb. 19, 2019), at 2, 5-6 [hereinafter "PostCom Comments"].

[17] *Id.* at 3-4.

[18] *Id.* at 6-10.

oversimplified and inaccurate.[19] First, the Postal Service's approach to reducing these passthroughs over time is consistent with the direction provided by the Commission in recent price change dockets.[20] As the Commission has recognized, the worksharing requirements in Section 3622(e) "impose a ceiling but not a floor on passthroughs,"[21] so the Postal Service's focus, where appropriate, on reducing discounts that exceed avoided costs accords with the statute.

More importantly, a balance must be struck between encouraging efficient entry of Marketing Mail and other volume, exercising the Postal Service's pricing flexibility subject to price cap limitations at the class level, and maintaining compliance with the Commission's interpretation of the worksharing requirements in Section 3622(e).[22] This balancing may involve price increases (or reduced discounts), operational changes designed to enhance efficiency, or some combination of these elements. In addition, passthroughs often are impacted by changes in analytical principles that result in more accurate estimates of worksharing costs avoided. For example, contrary to PostCom's claim that the Postal Service and the Commission "use only one technique – higher prices – to attempt to achieve compliance" with Section 3622(e), the Automation Mixed AADC Letters passthrough was reduced from 1300.0 percent in FY 2017 to 216.7 percent in FY 2018 following a significant increase in the cost avoidance that resulted

---

[19] *Id.* at 2, 9-10.

[20] *See, e.g.,* Order No. 4875, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Classification Changes, Docket No. R2019-1 (Nov. 13, 2018), at 36-37 (accepting justifications for certain USPS Marketing Mail discounts, contingent upon the Postal Service's plan to reduce passthroughs greater than 100 percent by at least 10 percentage points in its next general market dominant rate adjustment).

[21] *See, e.g.,* Annual Compliance Determination Report, Fiscal Year 2016, Docket No. ACR2016 (Mar. 28, 2017), at 11, 77 [hereinafter "FY 2016 ACD"].

[22] *See* Reply Comments of the United States Postal Service, Docket No. ACR2018 (Feb. 25, 2019), at 4-5 [hereinafter "USPS Reply Comments"].

directly from methodology changes approved in Docket No. RM2019-1.[23] As it has done in the past, the Postal Service plans in future rate cases to continue to balance the needs of its customers with opportunities for greater pricing and operational efficiencies, consistent with the PAEA's requirements.

PostCom also criticizes the Postal Service's efforts to reduce flats costs.[24] As explained in the Postal Service's earlier Reply Comments in this docket, an annual compliance proceeding is not the appropriate forum to delve into these issues, which could be more adequately and comprehensively addressed in Docket No. RM2018-1.[25] PostCom acknowledges as much by stating that it "appreciates that the Commission has launched RM2018-1 to explore the issue of flats costs in a more exhaustive fashion."[26] Similarly, the suggestion that the Commission should consider facilitating "open access to raw information collected through" the Postal Service's Informed Visibility platform raises privacy and other complex issues that are not amenable to resolution in this compliance review.[27]

Finally, PostCom avers that the Postal Service only "grudgingly offers required information that is often incomplete, heavily edited and or redacted, and lacking contextual information," arguing that the Commission should encourage the Postal Service to "share much more unedited information."[28] This is entirely unwarranted. In

---

[23] *See* FY 2018 ACR at 20.

[24] PostCom Comments at 10-12.

[25] USPS Reply Comments at 11-12.

[26] PostCom Comments at 11.

[27] *See id.* at 14 (acknowledging that providing access to information collected through Informed Visibility would require "appropriate safeguards to hide the identity of individual employees or customers"). PostCom shows no appreciation for the overwhelming practical burdens that would necessarily be involved in any efforts to operationalize such safeguards on an ongoing basis.

[28] *Id.* at 13-14.

the FY 2018 ACR, as in past ACRs, the Postal Service provided detailed information regarding "whether any rates or fees in effect in FY 2018 were not in compliance with applicable law" and "whether any service standards in effect in FY 2018 were not met," exactly as required by law.[29] Underlying data were provided in 74 separate folders, and the Postal Service has responded (or will soon respond) to 20 separate sets of Chairman's Information Requests, providing still more information and data. When PostCom and UPS sought access to a significant number of non-public folders under protective conditions, the Postal Service raised good faith objections to providing access to some of those folders, but also made clear that it would not object to disclosure of many others under protective conditions.[30] In short, PostCom's complaints about transparency are unsupported and inaccurate.

[29] *See* USPS Reply Comments at 1 (citing 39 U.S.C. § 3653(b)).

[30] *See* United States Postal Service Response to Association for Postal Commerce's Motion Requesting Access to Non-Public Materials Under Protective Conditions, Docket No. ACR2018 (Jan. 28, 2019), at 1; United States Postal Service Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, Docket No. ACR2018 (Jan. 28, 2019), at 1.

VI. Conclusion

The Postal Service appreciates the opportunity to respond to the issues raised by UPS and PostCom in their comments.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Nabeel R. Cheema
Chief Counsel, Pricing & Product Support

Anthony F. Alverno
Chief Counsel, Global Business & Service Development

Eric P. Koetting
Christopher C. Meyerson
Maria W. Votsch

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1101
(202) 268-6525
Maria.W.Votsch@usps.gov
March 1, 2019