

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

ANNUAL COMPLIANCE REVIEW, 2018)
) Docket No. ACR2018
)

**MOTION OF MPA-THE ASSOCIATION OF MAGAZINE MEDIA
FOR CORRECTION OF FY 2018 ANNUAL COMPLIANCE
DETERMINATION REPORT**

April 22, 2019

Pursuant to 39 C.F.R. § 3001.21(a), MPA – The Association of Magazine Media respectfully files this motion requesting that the Postal Regulatory Commission correct erroneous information concerning the Periodicals Outside County Carrier Route Basic workshare discount contained in section 2(C)(2) of the FY 2018 Annual Compliance Determination Report (hereafter “ACD”). In support of its motion, MPA states as follows:

The ACD incorrectly portrays the Periodicals Outside County Carrier Route Basic Flats passthrough as increasing from 51.7 percent in FY 2017 to 69.7 percent in FY 2018. Docket No. ACR2018, FY 2018 ACD at 19 (Figure II-1) (Apr. 12, 2019). Based upon this same inaccurate information, the PRC asserts that “[i]n FY 2018, the gap between the passthroughs for Machinable Automation 5-Digit and Carrier Route shrunk considerably.” *Id.* at 20.

With all due respect to the Commissioners and staff, the PRC cannot accept the Postal Service’s calculation that the Carrier Route Basic passthrough has increased. The asserted increase is not due to a substantial increase in the discount (which only increased from 10.9 cents to 11.2 cents in January 2018). See Docket No. R2018-1, PRC-LR-R2018-1/3, PRC-CAPCALC-PER-R2018-1.xlsx, “Regular Rate Adjustments”,

cell D43 minus cell D48 and cell F43 minus cell F48, respectively. Rather, this reported increase is the result of a Postal Service calculation error that substantially understates the Carrier Route Basic cost avoidance.

We and the Alliance of Nonprofit Mailers (“ANM”) pointed out this error in our joint comments earlier in this docket. Comments of MPA and ANM at 5 (February 14, 2019); *id.* at MPA-LR-1, mpa-lr-1.xlsx, (“Per OC Passthroughs”).

Once the cost avoidance calculation is corrected, the Commission can plainly see that the Carrier Route Basic passthrough declined again in FY2018, from 51.7 percent in FY 2017 to 49.3 percent in FY 2018. The gap between the discount passthroughs for Machinable Automation 5-Digit and Carrier Route still shrunk somewhat over the past few years, but that is because the Postal Service substantially reduced the Machinable Automation 5-Digit passthrough from FY 2016 to FY 2018 to well below 100 percent. Shrinking the disparity between 5-Digit and Carrier Route passthroughs is not to be applauded when the results are a paltry 70 percent and 49 percent, respectively. As the Commission itself notes on page 20:

[P]rices that yield more passthroughs closer to 100 percent would further promote Periodicals pricing efficiency. Discounts are most efficient when they are set at their corresponding avoided costs. Passthroughs set under 100 percent generally reflect a situation where the discount offered to mailers is less than the Postal Service’s avoided cost. A discount that is “too small” discourages efficiency if a mailer could perform the work at a lower cost than the Postal Service, but does not do so because the cost to the mailer for performing the work required to receive the discount exceeds the amount of the discount.

When calculating the Carrier Route Basic cost avoidance, the Postal Service mistakenly used the unit delivery cost for Carrier Route flats (USPS-FY18-19, FSSDeliveryModel18.xlsx, “Table2_FSS”, cell C21) for both the Carrier Route Basic rate

category and its benchmark rate category (Machinable Nonautomation 5D Flats). As noted in the MPA/ANM comments (page 5, footnote 4) and shown in MPA-LR-1, using the same unit delivery cost figure for both rate categories effectively excluded the delivery portion of the Carrier Route Basic cost avoidance. See Table 1 below.

In its reply comments (at 6, footnote 20), the Postal Service argues that its workshare calculations do include delivery costs. This misses the point. By including the same unit delivery cost for the Carrier Route Basic and Machinable Nonautomation 5-Digit Flats, the Postal Service excluded the delivery cost avoidance.

Table 1. FY 2018 Periodicals Outside County Carrier Route Basic Cost Avoidance (as Filed by USPS)

	Mail Processing	Delivery	Total
Machinable Nonautomation 5D Flats Unit Cost	\$0.163	\$0.149	\$0.312
Carrier Route Basic Unit Cost	\$0.003	\$0.149	\$0.152
Carrier Route Basic Cost Avoidance	\$0.160	\$0.000	\$0.160
Source: USPS-FY18-3, FY18.3 Worksharing Tables.xlsx, "Periodicals Outside County"			

Table 2 below shows the correct calculation, which uses the non-Carrier Route flat unit delivery cost for Machinable Nonautomation 5D Flats (USPS-FY18-19, FSSDeliveryModel18.xlsx, "Table2_FSS", cell C16).

Table 2. Corrected FY 2018 Periodicals Outside County Carrier Route Basic Cost Avoidance

	Mail Processing	Delivery	Total
Machinable Nonautomation 5D Flats Unit Cost	\$0.163	\$0.216	\$0.379
Carrier Route Basic Unit Cost	\$0.003	\$0.149	\$0.152
Carrier Route Basic Cost Avoidance	\$0.160	\$0.067	\$0.227
Source: MPA-LR-1, mpa-lr-1.xlsx, "Per OC Passthroughs"			

As further evidence of the Postal Service's error, Table 3 shows that the corrected FY 2018 delivery cost avoidance (6.7 cents) is in line with those in the FY 2015 to FY 2017 ACDs.

Table 3. Periodicals Outside County Carrier Route Basic Delivery Cost Avoidances

Fiscal Year	Delivery Cost		Cost Avoidance
	Mach Nonauto 5D	CR Basic	
2015	\$0.186	\$0.130	\$0.056
2016	\$0.184	\$0.128	\$0.056
2017	\$0.195	\$0.133	\$0.062
2018	\$0.216	\$0.149	\$0.067
Sources: 2015—Docket No. ACR2015, PRC-LR-ACR2015/5, FY 2015 Periodicals Workshare.xlsx, "Periodicals Outside County", cells J11, F11, L11 2016—Docket No. ACR2016, PRC-LR-ACR2016/5, FY 2016 Periodicals Workshare.xlsx, "Periodicals Outside County", cells J11, F11, L11 2017—Docket No. ACR2017, PRC-LR-ACR2017-5, FY 2017 Periodicals Workshare.xlsx, "Periodicals Outside County", cells J10, F10, L10 2018—Table 2			

Using the corrected FY 2018 cost avoidance from Table 2, the FY 2018 Carrier Route Basic passthrough is only 49.3 percent (the 11.2-cent discount divided by the 22.7-cent cost avoidance). MPA-LR-1, mpa-lr-1.xlsx, "Per OC Passthroughs", cell N10 divided by M10.

Therefore, we respectfully ask the Commission to amend the FY 2018 ACD to reflect accurate Carrier Route Basic passthrough data. Its annual review of the Postal Service's performance is one of the Commission's most important functions, and thus the PRC was mistaken in relying on the Postal Service's flawed numbers. We are concerned that, without formal correction, the FY 2018 ACD will potentially taint other PRC dockets that cite or reference this erroneous passthrough information. It is particularly important that the PRC "get it right" with respect to the Postal Service's performance on market dominant products, because the USPS is required to "maximize incentives to reduce

costs and increase efficiency.” See 39 U.S.C. § 3622(b)(1). Where, as here, the Postal Service’s passthrough decisions discourage efficiency, the Commission should not publish data that mischaracterizes the magnitude of price discount passthroughs.

Respectfully submitted,

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

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