

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

ANNUAL COMPLIANCE REVIEW, 2018

Docket No. ACR2018

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO MPA MOTION SEEKING AMENDMENT OF THE FY 2018
ANNUAL COMPLIANCE DETERMINATION
(April 29, 2019)

On April 22, 2019, MPA filed a motion requesting that the Commission amend certain selected portions of the FY 2018 Annual Compliance Determination (ACD), previously issued by the Commission on April 12, 2019. The MPA motion suggests that the Periodicals Outside County Carrier Route Basic Flats passthrough reported in Figure II-1 on page 19 of the ACD, as well as associated discussions on page 20, are premised on incorrect passthrough figures. MPA Motion at 1. Accordingly, MPA presents alternative calculations, and requests that the Commission revise the ACD to reflect its alternative passthrough calculations. The Postal Service hereby responds to the MPA motion.

The passthrough calculations in question are based on cost avoidances for mail processing and delivery. MPA accepts the Carrier Route Basic mail processing cost avoidance estimate, but challenges the cost avoidance estimate for delivery. MPA describes how, when MPA/ANM claimed in a footnote in their ACR comments that the delivery cost portion of the cost avoidance had been excluded, the Postal Service in its reply comments countered that delivery costs were included in the calculation and had not been omitted. As MPA correctly notes now, however, while delivery costs had

been included in the calculations, because identical delivery cost amounts were utilized for both Carrier Route Basic and the benchmark Machinable Non-Auto category, the practical effect on the calculations was a delivery cost *avoidance* estimate of zero for Carrier Route Basic. Stated most plainly, the fundamental concern raised by the MPA motion is that delivery costs should be different between Carrier Route Basic and Machinable Non-Auto flats, which necessarily translates into a non-zero delivery cost avoidance for Carrier Route Basic.

The Postal Service does not disagree. As MPA indicates, the problem lies not so much with the estimated Carrier Route Basic delivery cost, but the corresponding estimate for the Machinable Non-Auto categories. As MPA shows in its motion, if an estimated delivery cost of 21.6 cents is inserted for the specified benchmark category (Machinable Non-Automation 5D flats), the Carrier Route Basic delivery cost avoidance estimate increases from zero to 6.7 cents. MPA Motion at 3. The Postal Service agrees that this figure constitutes a more appropriate delivery cost avoidance estimate.

It is less clear to the Postal Service, however, whether acknowledgment of this potential improvement requires formal correction of the ACD. While it is true that making the recommended substitution would reduce the associated passthrough from 70 percent to approximately 50 percent, in both cases the estimated cost avoidance exceeds the applicable discount (i.e., both passthroughs are below 100 percent). The only current statutory prohibition is on passthroughs above 100 percent, from which Periodicals mail has generally been excepted because of its educational, cultural, scientific, and informational value. Nonetheless, in the ACD, the Commission is already encouraging the Postal Service to promote efficiency by striving to increase Periodicals

passthroughs that are under 100 percent to move closer to that mark. ACD at 20. Moreover, as the Commission notes, the Postal Service has already committed to using its pricing flexibility to encourage efficient preparation of Periodicals. *Id.* Even the statement on page 20 of the ACD that the gap between the passthroughs for Machinable Auto 5D and Carrier Route shrank in FY 2018 remains true, although it perhaps seems less likely that everyone would consider that shrinkage (from 27.2 percent to 20.4 percent) to necessarily still be “considerable.”

MPA raises the prospect that, going forward, the inaccurate passthrough reported in the ACD may taint future proceedings. MPA Motion at 4. To the Postal Service, however, the most important function of the MPA motion has already been served by highlighting the error to the Postal Service and the Commission, thus ensuring that the same circumstances will not be repeated when the Postal Service prepares future workshare tables, including those submitted with next year’s ACR. In ruling on the MPA motion, it would make sense for the Commission to note the corrected figures provided in the MPA motion and affirmatively indicate those figures should be applied in any future proceeding. Beyond that, given that the adjusted figures would not alter the ACD’s ultimate finding that the discounts and passthrough for Periodicals Outside County Carrier Route Basic comply with all relevant statutory requirements, the Postal Service does not take a position on whether formal revisions to

the ACD are needed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 29, 2019