

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Michael Kubayanda

Annual Compliance Report, 2018

Docket No. ACR2018

ORDER DENYING MOTION FOR CORRECTION

(Issued May 15, 2019)

I. INTRODUCTION

MPA – The Association of Magazine Media (MPA) filed a motion requesting that the Commission amend certain information in the FY 2018 Annual Compliance Determination Report (ACD).¹ For the reasons below, the Commission denies the motion.

II. PROCEDURAL HISTORY

On April 22, 2019, MPA filed a motion requesting that the Commission amend specific portions of the FY 2018 ACD. MPA Motion at 1. In particular, MPA states that the passthrough for Periodicals Outside County Carrier Route Basic Flats (Carrier

¹ Motion of MPA-The Association of Magazine Media for Correction of FY 2018 Annual Compliance Determination Report, April 22, 2019 (MPA Motion). See *also* Annual Compliance Determination Report, Fiscal Year 2018, April 12, 2019 (FY 2018 ACD).

Route Basic) was incorrectly calculated, which resulted in errors on pages 19 and 20 of the FY 2018 ACD. *Id.* MPA presents calculations that use alternative unit delivery costs, which result in a higher cost avoidance for Carrier Route Basic and a lower passthrough. *Id.* at 2-4. MPA requests that the Commission amend the FY 2018 ACD in order to ensure that the incorrect passthroughs do not potentially taint other Commission dockets. *Id.* at 4.

The Postal Service filed its response on April 29, 2019.² The Postal Service does not disagree with MPA. Postal Service Response at 2. The Postal Service states that the delivery cost differences between Carrier Route Basic and Machinable Non-Auto Flats should translate into a non-zero delivery cost avoidance for Carrier Route Basic. *Id.* However, the Postal Service does not take a position on whether formal correction of the FY 2018 ACD is necessary as long as the corrected passthroughs are used in subsequent dockets.³ *Id.* at 3-4.

III. COMMISSION ANALYSIS

In the FY 2018 ACD, the Commission reported the passthrough for Carrier Route Basic as 70.0 percent. See FY 2018 ACD at 19, Figure II-1. The Commission also reported that the gap between the passthroughs for Machinable Automation 5-Digit and Carrier Route shrunk considerably, and both passthroughs are now under 100 percent. *Id.* at 20.

The passthrough calculations for Carrier Route Basic are based on cost avoidances for mail processing and delivery. Since the Postal Service's costing

² Response of the United States Postal Service to MPA Motion Seeking Amendment of the FY 2018 Annual Compliance Determination, April 29, 2019 (Postal Service Response).

³ MPA also filed a supplement to its motion on May 8, 2019. Supplement to Motion of MPA-The Association of Magazine Media for Correction of FY 2018 Annual Compliance Determination Report, May 8, 2019. Since the Commission did not authorize a reply or any further responsive document to the Postal Service Response, the Commission declines to consider MPA's supplement. See 39 C.F.R. § 3001.21(b).

methods do not contain Periodicals delivery cost data at the rate category level, the Postal Service uses USPS Marketing Mail proxies for Periodicals delivery costs. Library Reference USPS-FY18-19 contains the FY 2018 unit delivery cost workbooks, including a workbook with delivery costs for flat-shaped mail disaggregated for whether the pieces are delivered in Flats Sequencing System (FSS) zones.⁴ The “FSSDeliveryModel18,” Table 2, contains three estimates for both USPS Marketing Mail Flats and Carrier Route Flats costs, which are: (1) delivery costs for pieces destinating in FSS zones, (2) delivery costs for pieces destinating in non-FSS zones, and (3) delivery costs for all pieces.

MPA challenges the cost avoidance estimate for delivery in the FY 2018 ACR and the FY 2018 ACD. MPA states that the Postal Service used the unit delivery cost for USPS Marketing Mail Carrier Route Flats for both the Periodicals Carrier Route Basic and the Periodicals Machinable Non-automation 5-Digit rate categories. MPA Motion at 2-3. MPA contends that by using the same unit delivery cost figure for both categories, the Postal Service excluded the delivery portion of the Carrier Route cost avoidance. *Id.* at 3. MPA submits that the delivery costs for all pieces should be used to calculate the cost avoidance and passthrough for Carrier Route Basic. *Id.* Using MPA’s suggested methodology, the FY 2018 Carrier Route Basic passthrough is 49.3 percent. *Id.* at 4. The gap between the 5-Digit and Carrier Route Basic passthrough shrunk to 20.4 percent from 27.2 percent in FY 2017. Postal Service Response at 3. The Postal Service did not disagree with this approach. *Id.* at 2.

However, the Postal Service and the Commission have historically used delivery costs for pieces destinating in non-FSS zones as the unit delivery cost estimate. The Postal Service first provided the delivery costs for pieces destinating in non-FSS zones in its FY 2015 ACR workbooks.⁵ Using this methodology, the passthrough for Carrier

⁴ Library Reference USPS-FY18-19, December 28, 2018, Excel file “FSSDeliveryModel18.xlsx.”

⁵ See, e.g., Docket No. ACR2015, Library Reference USPS-FY15-3, December 29, 2015, Excel file “FY15 3 Worksharing Discount Tables.xlsx,” tab “Periodicals Outside County,” cells “F10” & “F11.”

Route Basic is 48.7 percent.⁶ Additionally, this methodology results in the gap between the 5-Digit and Carrier Route Basic passthroughs shrinking from 27.7 percent in FY 2017 to 21.0 percent in FY 2018.⁷

The Commission finds that the calculating cost avoidance using either methodology would not materially change the Commission's findings in the FY 2018 ACD. See FY 2018 ACD at 20. Although the shrinkage may no longer be characterized as "considerable," the passthroughs for Carrier Route Basic would remain in compliance because the statutory prohibition is on passthroughs above 100 percent. In both cases, the estimated cost avoidance exceeds the applicable discount and both passthroughs are below 100 percent. Furthermore, the Commission encouraged the Postal Service to set prices that yield passthroughs closer to 100 percent in order to enhance Periodicals pricing efficiency. *Id.* The same conclusion would apply to the passthroughs for Carrier Route Basic under either methodology. Since the passthrough corrections do not materially change the FY 2018 ACD conclusions and recommendations, the Commission finds that formal revisions to the FY 2018 ACD are unnecessary.

Although MPA and the Postal Service agree that the delivery costs for all pieces should be used to calculate the cost avoidance and passthrough for Carrier Route Basic, the Commission declines to accept this methodology without a formal change in analytical principles rulemaking proceeding. In addition, the Commission notes that there was no rulemaking to establish the delivery costs for non-FSS zones as the appropriate method, and the FY 2015 ACR does not explain why that methodology was the most accurate. Given the importance of having consistent and accurate cost avoidances in the future, the Commission will initiate a rulemaking proceeding pursuant

⁶ See accompanying Excel file "2018 Periodicals Workshare_Revised.xlsx," tab "Periodicals Outside County," cell "O10." The Commission notes that using this methodology also changes the passthrough for High Density from 100 percent to 88.1 percent. See Excel file "2018 Periodicals Workshare_Revised.xlsx," tab "Periodicals Outside County," cell "O11."

⁷ See Excel file "2018 Periodicals Workshare_Revised.xlsx," tab "CR and 5D Passthroughs."

to 39 C.F.R. § 3050.11 to establish the methodology for which delivery costs estimate option should be used to calculate the passthroughs for Carrier Route Basic.

Accordingly, the motion is denied.

IV. ORDERING PARAGRAPH

It is ordered:

The Motion of MPA-The Association of Magazine Media for Correction of FY 2018 Annual Compliance Determination Report, filed April 22, 2019, is denied.

By the Commission.

Stacy L. Ruble
Secretary