

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

Periodic Reporting

Docket No. RM2019-4

NOTICE OF PROPOSED RULEMAKING ON
PERIODICALS OUTSIDE COUNTY CARRIER ROUTE BASIC FLATS

(Issued May 15, 2019)

I. INTRODUCTION

Pursuant to 39 CFR 3050.11, the Commission initiates a rulemaking proceeding to consider changes to analytical principles related to periodic reports. In particular, the Commission intends to establish the methodology for which delivery costs estimate should be used to calculate the passthroughs for Periodicals Outside County Carrier Route Basic Flats (Carrier Route Basic).

II. PROPOSAL

Background. On April 22, 2019, MPA – The Association of Magazine Media (MPA) filed a motion requesting that the Commission amend specific portions of the

FY 2018 Annual Compliance Determination Report (ACD).¹ In particular, MPA stated that the passthrough for Carrier Route Basic was incorrectly calculated, which resulted in errors on pages 19 and 20 of the FY2018 ACD. *Id.* MPA presented calculations that use alternative unit delivery costs, which result in a higher cost avoidance for Carrier Route Basic and a lower passthrough. *Id.* at 3. In its response, the Postal Service stated that it did not disagree with MPA's methodology.² The Postal Service explained that the delivery costs between Carrier Route Basic and Machinable Non-Auto Flats should translate into a non-zero delivery cost avoidance for Carrier Route Basic. *Id.*

Although there was no disagreement between MPA and the Postal Service on the methodology, the Commission found that the Postal Service had previously used a different methodology in prior fiscal years.³ The Commission also found there was no rulemaking to establish the unit cost avoidance calculation, and the Postal Service had not explicitly stated why the unit cost estimate it used was the appropriate methodology. Since the calculations using either methodology would not materially change the Commission's findings in the FY 2018 ACD, the Commission denied MPA's motion for correction. Order No. 5094 at 5. However, the Commission stated that it would initiate a rulemaking to establish the appropriate methodology for use in future dockets. *Id.* at 4-5.

Proposal. The passthrough calculations for Carrier Route Basic are based on cost avoidances for mail processing and delivery. 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

¹ Docket No. ACR2018, 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).

² 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, at 2 (Postal Service Response).

³ See Docket No. ACR2018, Order Denying Motion for Correction, May 15, 2019, at 3 (Order No. 5094).

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.

The Postal Service and the Commission have historically used delivery costs for pieces destinating in non-FSS zones to calculate the cost avoidance and passthrough for Carrier Route Basic. MPA used the delivery costs for all pieces for the unit cost estimate. MPA Motion at 3. The Postal Services did not disagree with this approach. Postal Service Response at 2.

To improve the accuracy of the avoidable cost estimates, the Commission proposes to use the delivery costs for all pieces as the unit cost estimate used to calculate the cost avoidance and passthrough for Carrier Route Basic.

Rationale and impact. In the FY 2015 ACR and FY 2015 ACD, when the proxies were first introduced, it was more appropriate to use the pieces destinating in non-FSS zones as proxies because separate prices for FSS Flats were also offered. Only pieces destinating to non-FSS zones would be prepared and processed as Carrier Route or 5-Digit. FSS Flats passthroughs were calculated using pieces destinating in FSS zones.⁵ In Docket No. R2017-1, the Postal Service removed FSS Flats.⁶ Since separate FSS Flats prices are no longer available, Carrier Route and 5-Digit pieces are being prepared and processed for all zones. With this pricing and operational change, it would be more accurate to use USPS Marketing Mail Flats and Carrier Route Flats for

⁴ Docket No. ACR2018, 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,” cell “F9.”

⁶ Docket No. R2017-1, United States Postal Service Notice of Market Dominant Price Adjustment, October 12, 2016.

all pieces as the proxies for calculating Periodicals passthroughs.⁷ MPA and the Postal Service both supported this methodology in Docket No. ACR2018.

III. NOTICE AND COMMENT

The Commission initiates Docket No. RM2019-4 to establish the methodology for which delivery costs estimate should be used to calculate the passthroughs for Periodicals Outside County Carrier Route Basic Flats. Interested persons may submit comments on the Proposal no later than June 14, 2019. Pursuant to 39 U.S.C. 505, Samuel M. Poole is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2019-4 to establish the methodology for which delivery costs estimate should be used to calculate the passthroughs for Periodicals Outside County Carrier Route Basic Flats.
2. Comments by interested persons in this proceeding are due no later than June 14, 2019.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Samuel M. Poole to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

⁷ See accompanying Excel file "2018 Periodicals Workshare_RM.xlsx," tab "Periodicals Outside County."

4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Stacy L. Ruble
Secretary