

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

PERIODIC FLATS REPORTING

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Docket No. RM2019-4

**COMMENTS OF MPA – THE ASSOCIATION
OF MAGAZINE MEDIA, THE ALLIANCE OF NONPROFIT MAILERS,
AND THE ASSOCIATION FOR POSTAL COMMERCE**

June 14, 2019

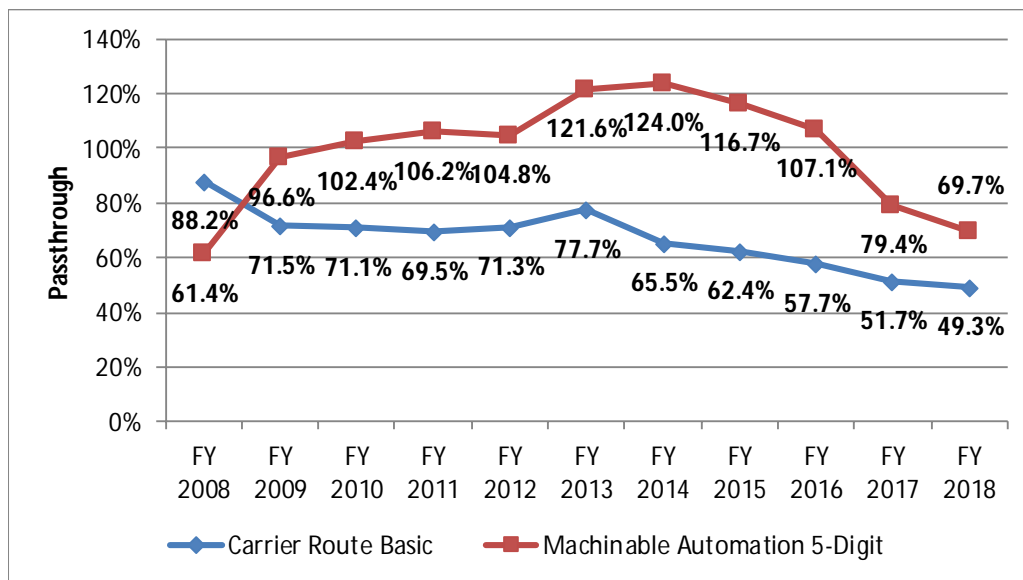
Pursuant to Order No. 5095 of this docket, MPA—The Association of Magazine Media (“MPA”), the Alliance of Nonprofit Mailers (“ANM”), and the Association for Postal Commerce (“PostCom”) are pleased to comment on the Commission’s proposed method for calculating the cost avoidance and passthrough for Periodicals Outside County Carrier Route Basic Flats. MPA, ANM, and PostCom agree with the Commission’s proposal to include delivery costs in calculating the Carrier Route Basic cost avoidance. Excluding the delivery cost avoidance was the cause of the substantial understatement of the Carrier Route Basic cost avoidance in the FY 2018 Annual Compliance Determination.

Whether costs for pieces destinating in all zones or only in non-FSS zones should be used in calculating the delivery cost avoidance is inconsequential, as shown below. More fundamentally, this methodological question should be moot in any event; the Commission should instruct the U.S. Postal Service to abandon its failed FSS system altogether, thereby eliminating the distinction between FSS and non-FSS zones. See Docket No. RM2017-3, Comments of ANM *et al.* (Mar. 1, 2018) at 92-94, 107; Comments of ANM *et al.* (Mar. 20, 2017) at 11-12, 54-57.

At the outset, we appreciate the Commission’s recognition that the FY 2018 Annual Compliance Determination substantially understated the Periodicals Outside County Carrier Route Basic cost avoidance presented by excluding delivery costs avoided by Carrier Route preparation. Once the delivery cost avoidance is included, the passthrough declines to a mere 49 percent.

As Figure 1 shows, 49 percent is the lowest Carrier Route Basic passthrough since the enactment of the Postal Accountability and Enhancement Act (“PAEA”) and is far from the 100 percent that would “maximiz[e] incentives to reduce costs and increase efficiency.” 39 U.S.C. § 3622(b)(1). The Postal Service’s Carrier Route Basic passthrough is perpetually inefficient and moving in the wrong direction, similar to its productivity with respect to handling flat-shaped mail. See Docket No. RM2017-3, Comments of ANM *et al* (Mar. 1, 2018) at 86-88.

Figure 1—Passthroughs for Periodicals Outside County Carrier Route Basic and 5-Digit Automation Flats



Source: Order No. 5095, accompanying Excel file “2018 Periodicals Workshare_RM.xlsx”, tab “CR & 5D Passthroughs”.

It is no solace that the passthrough for 5-Digit Automation Flats also declined in FY 2018, to 70 percent. Instead, divergences between passthroughs should be addressed by adjusting them all to 100 percent, as the Commission again encouraged (but did not require) the Postal Service to do in its FY 2018 Annual Compliance Determination.

The Commission emphasized in past ACDs that, as a general principle, passthroughs closer to 100 percent would send better pricing signals to mailers and would increase contribution and cost savings to the Postal Service. FY 2018 Annual Compliance Determination at 18.

See *also* Docket No. RM2017-3, Letter from Hon. J. Chaffetz and Hon. M. Meadows (Mar. 20, 2017) (“setting discounts below avoided costs discourages the mailing industry from performing work more cost-effectively than the Postal Service....it would be beneficial to both the Postal Service and the mailing industry for worksharing discounts to be set equal to avoided costs.”).

FSS Zones Should Be Eliminated Entirely

The central question posed by Order No. 5095 – whether to use non-FSS zones or all-zone delivery costs to estimate Carrier Route Basic cost avoidance and passthrough – is inconsequential because both methods produce similar cost avoidances (varying only by 0.03 cents) and passthroughs (rounding to 49 percent under either method). Docket No. ACR2018, USPS-FY18-19, FSSDeliveryModel18.xlsx, “Table2_FSS”, cells C6 and C9. More importantly, even a quick review of the Postal Service’s workshare cost models highlights the mistake of having FSS processing and

FSS zones at all. FSS processing shifts low-cost Carrier Route Basic Flats to high-cost FSS processing.

The total cost (mail processing plus delivery) for pieces processed on the FSS is...significantly higher than the cost for Carrier Route pieces. FY 2018 Annual Compliance Determination at 45.

Looking forward, the Commission should direct the Postal Service to reduce its costs for flats by abandoning the failed FSS program and passing through 100 percent of the Carrier Route Basic cost avoidance. Doing so will both reverse the negative effect of FSS on flats processing efficiency and eliminate the need to distinguish between FSS and non-FSS zones in future year workshare calculations.

Respectfully submitted,



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