

mailers have explained repeatedly, “lack of pricing flexibility” is not the problem. See Docket No. R2019-1, Comments of MPA (October 30, 2018) at 1; Docket No. RM2017-3, Comments of ANM *et al.* (March 1, 2018) at 85-101. Moreover, the Postal Service does have tools available to it that can ameliorate the Periodicals Mail cost coverage situation: it can better control flats costs and it can promote efficient mail preparation by passing through 100 percent of Carrier Route Basic cost avoidance. Thus, MPA again urges the Commission to “maximize incentives to reduce costs and increase efficiency” (objective 1) by requiring the Postal Service to propose a rate design that includes a much higher Carrier Route Basic passthrough that aligns with the passthrough rate for Machinable, Automation 5-Digit Flats.

In this proceeding, the Postal Service proposes a 14.0 cent Carrier Route Basic discount (relative to its Machinable Nonautomation 5-Digit Flat benchmark), which passes through only 62 percent of the 22.7 cents that the Postal Service avoids due to this preparation.² This falls far short of the 100 percent passthrough that the Commission again explained in its FY 2018 Annual Compliance Determination (ACD) would promote efficiency.

[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

² USPS Notice (October 9, 2019) at Attachment B R2020-1.xls, “Periodicals Outside County”, row 10.

the mailer for performing the work required to receive the discount exceeds the amount of the discount.³

Furthermore and in direct contravention of Commission rule 3010.12(b)(6), which requires that “[t]he Postal Service shall identify and explain discounts that are set substantially below avoided costs,” the Postal Service provided no justification at all for this “substantially below avoided cost” discount.

Making the “substantially below avoided cost” Carrier Route Basic discount even more problematic is that it affects a large amount of volume. More than 60 percent of Periodicals Outside County volume is entered at the Carrier Route Basic rate and most of the remainder (20 percent of Periodicals Outside County volume) is entered at the Machinable Automation 5-Digit Flat rate⁴ and would likely shift to the Carrier Route Basic rate with an appropriate discount.

[T]he low passthrough underlying the Carrier Route Basic discount has limited the growth in co-mailing and caused flats processing to be more costly for the USPS than it should be. Passing through the entire Carrier Route Basic cost avoidance would result in massive growth in the number of publishers and marketers that participate in co-mailing, and a substantial improvement in the end-to-end efficiency of the flats mailstream overall.⁵

Furthermore, when calculated relative to a Machinable Automation 5-Digit Flat benchmark, the Carrier Route Basic passthrough is even lower – 56 percent and only marginally higher than the 52 percent in FY 2018.⁶

³ Docket No. ACR2018, Annual Compliance Determination Report, Fiscal Year 2018 (FY 2018 ACD), at 20.

⁴ USPS-LR-R2020-1-3 Periodicals, USPS-CAPCALC-PER-R2020.xlsx, “Outside County Adjustments” & “Summary”.

⁵ Docket No. RM2017-3, Declaration of Quad/Graphics, March 20, 2017, at 3.

⁶ *Compare* Docket No. ACR2018, Mail Processing and Delivery costs and prices for Machinable Automation 5D Flats and Carrier Route Basic, USPS-FY18-3 *with* Docket No. R2020-1, USPS Notice (October 9, 2019) at Attachment B R2020-1.xls.

The Commission recognized the importance of the relationship between the Carrier Route Basic and Machinable Automation 5-Digit Flat rates in its Annual Compliance Determination, citing approvingly to its observation that the passthroughs underlying these two discounts were similar in FY 2018. “In FY 2018, the gap between the passthroughs for Machinable Automation 5-Digit and Carrier Route shrunk considerably.”⁷

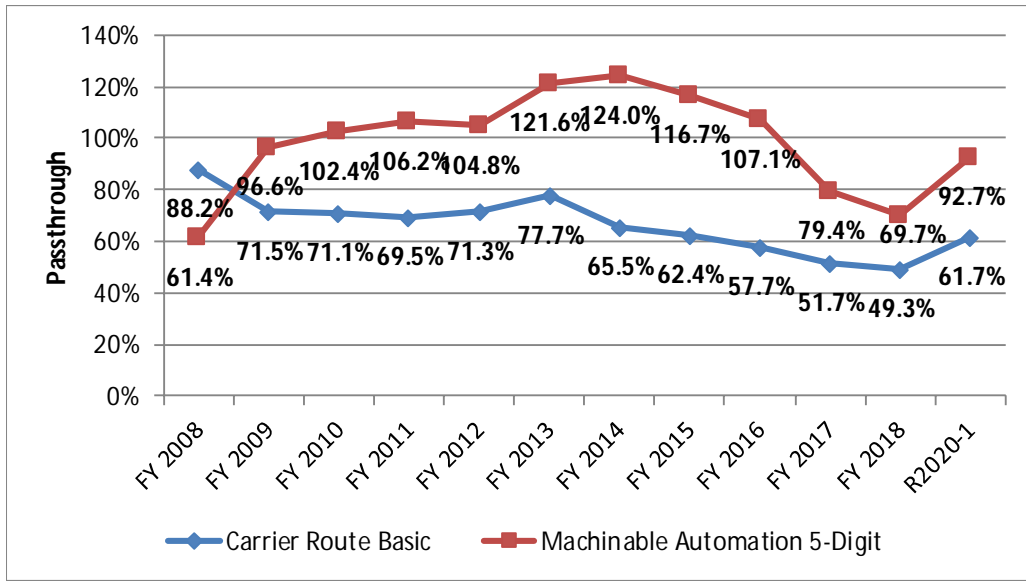
This Commission observation was flawed because both the USPS and PRC miscalculated the Carrier Route Basic cost avoidance and passthrough in the FY 2018 Annual Compliance Review process.^{8,9} As Figure 1 below shows, the corrected FY 2018 passthrough for Carrier Route Basic was 20 percentage points below that for Machinable Automation 5-Digit Flats. And the Postal Service now proposes to increase the passthrough gap further, to 31 percentage points.

⁷ FY 2018 ACD at 20.

⁸ Docket No. ACR2018, Comments of MPA – The Association of Magazine Media and the Alliance of Nonprofit Mailers (February 14, 2019) at 5, fn 4.

⁹ Docket No. RM2019-4, Order No. 5095 – Notice of Proposed Rulemaking on Periodicals Outside County Carrier Route Basic Flats (May 15, 2019).

Figure 1. Periodicals Outside County Carrier Route Basic and Machinable Automation 5-Digit Flat Passthroughs



Source: FY 2008 – FY 2018, Docket No. RM2019-4, Order No. 5095, 2018 Periodicals Workshare_RM.xlsx, “CR & 5D Passthroughs”; R2020-1, Docket No. R2020-1, United States Postal Service Notice of Market-Dominant Price Change, October 9, 2019, Attachment B R2020-1.xls, “Periodicals Outside County”.

Despite its awareness of the issue, the Commission has for the last decade allowed the Postal Service to inefficiently set the Carrier Route Basic discount substantially below both 100 percent and the passthrough for Machinable Automation 5-Digit Flat. Now is the time for the Commission to move from simply observing and opining on inefficiencies in the Postal Service’s Periodicals Outside County rate design to requiring the Postal Service to fix the problem.

Respectfully submitted,

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

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