

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Three)

Docket No. RM2021-6

PUBLIC REPRESENTATIVE COMMENTS
(June 1, 2021)

I. INTRODUCTION

The Public Representative hereby provides comments in response to Commission Order No. 5864.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, regarding changes to analytical principles relating to periodic reports.²

II. BACKGROUND

The Postal Service proposes to report workshare discounts for all dropshipped Marketing Mail Carrier Route Flats together, instead of separately reporting for Marketing Mail Carrier Route Flats on 5-digit pallets, and all other Marketing Mail Carrier Route Flats. Petition at 2. The Postal Service asserts that continued separate reporting “can result in unpredictable, if not irrational, pricing changes when complying with the Commission’s new regulations governing workshare discounts.” *Id.*

The Postal Service asserts that “separately calculating and reporting workshare discounts and percentage passthroughs for dropshipped Carrier Route Flats on “direct”

¹ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting, April 13, 2021 (Order No. 5864).

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), April 8, 2021 (Petition).

pallets has the potential to create non-compliant anomalies under the Commission's new passthrough regulations. *Id.* At 7. It explains that with methodology introduced in 2017, the workshare discount calculation includes both the per-piece and per-pound elements of the Market Mail Flats prices. *Id.* And, that depending on the respective volumes, those values may differ for Carrier Route Flats on "direct" pallets and all other Carrier Route Flats, which may result in different, sometimes greatly different, percentage passthroughs. *Id.*

III. COMMENTS

The Public Representative supports Proposal Three. First, reporting for all dropship Marketing Mail Carrier Route Flats together is sufficient to comply with the worksharing provisions of the PAEA, as well as with the Commission's rules regarding workshare discounts. Second, there is not sufficient data to permit a reasonable evaluation of workshare discounts separately, for Marketing Mail Carrier Route Flats on 5-digit pallets, and all other Marketing Mail Carrier Route Flats. Finally, there is no evidence to suggest that the costs avoided by dropshipping, would depend on whether pieces were prepared on pallets.

Additionally, the Public Representative proposes that the Commission also combine reporting for the workshare discount for palletization for all dropshipped Marketing Mail Carrier Route Flats categories, as the discount is the same for all categories, and avoided cost estimates are not granular enough to separately evaluate each category.

The provisions of PAEA pertaining to worksharing essentially codified the approach used by the Postal Rate Commission to evaluate the appropriateness of discounts. The

approach was to apply the logic of the Efficient Component Pricing (ECP) rule when setting discounts, unless there was an overriding consideration.³

The ECP rule asserts that an integrated mail service will be produced most efficiently if its various components are provided by the least-cost producer. A mailer will be the least-cost producer of a workshared component if the cost to the mailer of producing that component is less than the amount that the component saves the Postal Service. Therefore, the discount given to the mailer for worksharing its mail should be no greater than the amount that the worksharing saves the Postal Service. Following this rule, the mailer and the Postal Service will each provide only those components of an integrated service that they can produce at the lowest cost. This will minimize the overall cost of the integrated service. *Id.*

Applying this logic to the discounts available to Marketing Mail Carrier Route Flats, there are two types of discounts that must be evaluated, discounts for dropshipping, and a discount for preparing mail on “direct” pallets. For dropshipping, it is sufficient to compare the costs avoided by all Marketing Mail Carrier Route Flats with the dropship discounts for all Marketing Mail Carrier Route Flats, unless there is a reason to believe that there are distinct groups within Marketing Mail Carrier Route Flats, such that the avoided cost estimates for Marketing Mail Carrier Route Flats is not representative of the avoided cost of any group.

Although, Marketing Mail Carrier Route Flats on direct pallets and all other Marketing Mail Carrier Route Flats are distinct groups, there is scant evidence that the two groups have dissimilar avoided costs for dropshipping. The Postal Service does not develop avoided costs separately for the two groups, therefore there is no way to confirm that the costs avoided are similar. Nonetheless, based on the Postal Service’s explanation in its responses to Chairman’s Information Request No. 1, Questions 1 through 3 regarding the specific sources of costs avoided, it seems unlikely that

³ Docket No. RM2010-13, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, April 20, 2012, at 3 (Order No. 1320).

preparing mail on “direct” pallets would impact the costs avoided by dropshipping in a meaningful way.⁴

The discounts the Postal Service offers for dropshipping also are not distinguished between Marketing Mail Carrier Route Flats on direct pallets and all other Marketing Mail Carrier Route Flats. Therefore, there is no compelling reason to report on workshare discounts for dropshipping separately for the two groups. If the Postal Service were to offer different discounts for the two groups, then the Commission should require that the Postal Service develop separate cost avoidances for the two groups to ensure that the discounts for each group can be properly evaluated.

Additionally, the Public Representative recommends consolidating reporting on the discount for preparing Marketing Mail Carrier Route Flats on “direct” pallets for all dropship levels. For Marketing Mail Carrier Route Flats, the Postal Service offers the same discount for preparing mail on “direct” pallets for Marketing Mail Carrier Route Flats, regardless of how deep they are dropshipped. And, there is little reason to believe that costs avoided by preparing mail on “direct” pallets would be significantly different depending on where the mail is dropshipped. The Postal Service does not develop separate cost avoidances for by dropshipping tier. Therefore, reporting on workshare discounts separately by dropship category provides no desirable information that combined reporting would not.

IV. CONCLUSION

For the reasons discussed above, the Public Representative supports the Postal Service’s proposal to report workshare discounts for all dropshipped Marketing Mail Carrier Route Flats together, and recommends combining all dropshipping tiers for reporting on the discount for preparing mail on direct pallets for Marketing Mail Carrier

⁴ Responses of the United States Postal Service to Chairman’s Information Request No. 1, May 5, 2021.

Route Flats. The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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