Postal Regulatory Commission
Submitted 3/10/2023 4:08:25 PM
Filing ID: 124640
Accepted 3/10/2023

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal One)

Docket No. RM2023-4

PUBLIC REPRESENTATIVE COMMENTS

(March 10, 2023)

INTRODUCTION

The Public Representative hereby provides comments pursuant to the Commission's Order No. 6441.[1] In that order, the Commission established Docket No. RM2023-4 to receive comments from interested persons, including the undersigned Public Representative, that address the Postal Service's petition to change analytical principles relating to periodic reports.[2] The Postal Service filed the petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. The intention of the proposal is to provide a new methodology for calculating workshare discount passthrough percentages for dropshipped, flat-shaped Marketing Mail pieces. Id.

BACKGROUND

The Public Representative recognizes that this Petition uses a variety of terms and abbreviations that are ubiquitous among members of the mailing industry, but are uncommon for those outside the mailing industry. He remembers feeling overwhelmed when he first started to learn about worksharing and its language. To better assist the reader's understanding, the Public Representative has included the following list of

[1] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal One), February 14, 2023 (Order No. 6441).
[2] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), February 10, 2023 (Petition).

relevant terms and what they mean. Most of these definitions come from the Postal Service's Publication 32, which is a comprehensive list of Postal terms.[3]

Table 1 – Definitions of Relevant Terms

Term	Definition
Destination Delivery Unit (DDU)	(1) A presort level in which all pieces or all pieces in the bundle or container are addressed for delivery within the service area of the same destination delivery unit (DDU) and entered by the mailer at that facility. (2) A price category or discount available for some mail classes or products prepared at a DDU presort level. Some mail classes or products require further sortation by carrier line of travel or walk sequence.
Destination Network Distribution Center (DNDC)	(1) A presort level in which all pieces in the bundle or container are addressed for delivery within the service area of the same destination network distribution center (DNDC) and entered by the mailer at that facility. (2) A price category or discount available for some mail classes or products prepared at a DNDC presort level. (3) The network distribution center (NDC) or other postal facility designated as an NDC such as an auxiliary service facility (ASF) where a mailer enters mail directly.
Destination Sectional Center Facility	(1) A presort level in which all pieces in the bundle or container are addressed for delivery within the service area of the same destination sectional center facility (DSCF) and entered by the mailer at that facility. (2) A price category or discount available for some mail classes or products prepared at a DSF presort level. (3) The sectional center facility (SCF) or other postal facility designated as an SCF where a mailer enters mail directly
Drop Shipment	Typically the movement of a mailer's product on private (nonpostal) transportation from the point of production to a postal facility located closer to the destination of that product. The pieces in a mailer's drop shipment mailings frequently receive a reduced price or discount based on mail class or product. USPS also provides drop shipment service for mailings via Priority Mail Express service or Priority Mail service.
Marketing Mail	*USPS Marketing Mail* (formerly Standard Mail) is mail matter that is not required to be mailed as First-Class Mail or Periodicals. Lower nonprofit prices are available for USPS Marketing Mail, but require specific authorization.[4]
Origin	(1) The point or place where intended mail is fully prepared (i.e., where the mail originates) just prior to entry into the mailstream. (2) The point where mail first enters the mailstream. (3) A qualifier that identifies where intended mail is prepared such as origin ZIP Code or where mail is entered such as origin Post Office
Passthrough	Percentage output derived from taking the discount provided to the mailer and dividing it by the cost avoidance from presorting and dropshipping. For compliance, should be aligned to be between 85 and 100 percent.
Per Piece Cost Avoidance	The money saved, or cost avoided, by the Postal Service for not having to process and transport mail at a certain sortation level.
Per Piece Discount	The discount offered by the Postal Service to mailers who sort and transport mail on behalf of the Postal Service.
Presort Level	The degree to which mail is sorted by ZIP Code or ZIP Code ranges or carrier routes to the mail processing facility or delivery unit that serves the delivery address of the mail. Not every presort level is available for every mail class or product. Not every presort level corresponds to a specific price. In general, the finer the sortation, the lower the price (e.g., Standard Mail pieces sorted by the same 5-digit ZIP Code such as 20008 are considered more finely sorted

[3] https://about.usps.com/publications/pub32/pub32_terms.htm

[4] https://faq.usps.com/s/article/What-is-USPS-Marketing-Mail#:~:text=USPS%20Marketing%20Mail%C2%AE%20(formerly,Mail%2C%20but%20require%20specific%20authorization.

	than pieces for the same 3-digiti ZIP Code prefix such as 200 and thus receive a lower price). The principal presort levels, starting with the finest level, include: (a) firm, (b) carrier route, (c) 5–digit, (d) 5-digit scheme, (e) merged 5-digit, (f) merged 5-digit scheme, (g) 3-digit, (h) unique 3-digit, (i) 3-digit scheme, (j) origin/optional 3–digit(s), (k) SCF, (l) origin/optional SCF, (m) ADC/AADC, (n) ASF/NDC, (o) DNDC, (p) DSCF, (q) NDC presort, (r) ONDC presort, (s) mixed (NDC, ADC, AADC, etc.), and (t) residual (pieces, bundles, sacks).
Workshare	Specific types of mail preparation or mail processing activities (e.g., presorting, prebarcoding, and transporting) normally performed by USPS that mailers perform.
Workshare Discount	A postage discount provided to mailers for the presorting, prebarcoding, handling, or transportation of mail. In some cases, the discount is included in the pricing structure such as presorted First-Class Mail and Parcel Select services. In other cases, the discount is separately identifiable from the base price such as destination entry discounts for Standard Mail and Bound Printed Matter services. In general, the discount does not exceed the cost that USPS avoids as a result of the workshare activity.

Source: https://about.usps.com/publications/pub32/pub32_terms.htm; "Passthrough," "Per Piece Cost Avoidance," and "Per Piece Discount" defined by the Public Representative.

While worksharing appears daunting and the mechanisms behind it very much are, the spirit of it is quite simple: The Postal Service will charge less money to the mailer if the mailer is willing to undertake some of the work necessary to send the piece of mail. The type of applicable work includes presorting, prebarcoding, and transporting. Worksharing is also present across many categories of mail, which lends to its inherent complication. The intent of this rulemaking docket is to make the worksharing for flat-shaped Marketing Mail pieces a little less complicated.

The specific drive behind this change is a well-founded desire to remedy the volatility present in the current methodology for dropshipped, flat-shaped Marketing Mail pieces. This volatility contributes to making compliance with 39 C.F.R. § 3030.284 more difficult if not sometimes impossible. Petition at 2.

The Postal Service explains that for some flat-shaped Marketing Mail pieces then, as now, they have two available rates: (1) a per-piece rate for pieces up to a 4-ounce breakpoint weights and (2) a combined rate, per piece and per pound, for pieces heavier than the 4-ounce breakpoint weight. Petition at 2. It was ultimately shown that the method of calculating passthrough percentages in [and before] 2017 was incomplete due to dividing the discount for the heavier pieces by the avoided cost per pound for all pieces, both above and below the breakpoint weight. Id at 3. The problem was that the method did not include in its numerator the pieces below the pricing breakpoint, but it did include the weight of those excluded pieces in the denominator. Id.

Thus, the Postal Service proposed a remedy and Docket No. RM2017-11 was established.[5] The current methodology was approved as Proposal Seven on November 20, 2017.[6] The approved formula is shown in Figure 1.

Figure 1 – Current Methodology Approved from Proposal Seven

$$\frac{((\text{Pound discount} * \text{Pounds above breakpoint}) + (\text{Piece discount} * \text{Pieces up to the breakpoint}))}{(\text{Avoided cost per pound} * \text{Pounds above and below breakpoint})}$$

Source: Petition at 3

However, as the Postal Service goes on to explain, calculating drop passthrough percentages for these flat-shaped Marketing Mail pieces is different than calculating passthrough percentages for most other products. Id at 3. In most other cases, the Postal Service can simply take the unit discount from the published benchmark price given on the relevant pricing table, e.g. Notice 123, and divide by the avoided cost. Id. For these combined per-piece and per-pound prices, however, this approach does not work because the benchmark price varies with the different weights of the pieces mailed. Id at 3-4. This presents a limitation to the Postal Service as workshare discounts and percentage passthroughs can only be calculated when the weights and numbers of the relevant pieces sent are known. Id at 4.

Proposal Seven's methodology worked up until Docket No. R2021-2,[7] where the Postal Service was faced with a situation in which it was mathematically impossible for all six passthrough percentages for Basic Carrier Route Flats to comply with 39 C.F.R. §§ 3030.283 and 3030.284. Id. Since the problem was identified in Docket No. R2021-2, the Postal Service and Commission have spent the ensuing almost two years attempting to improve and tweak this methodology using Rate Case dockets, Annual

[5] Docket No RM2017-11, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), July 28, 2017.
[6] Docket No. RM2017-11, Order on Analytical Principles Used in Periodical Reporting (Proposal Seven), November 20, 2017 (Order No. 4227).
[7] Docket No. R2021-2, United States Postal Service Notice of Market Dominant Price Change, May 28, 2021.

Compliance Determination Reports (ACR), and Rulemaking proceedings as the means to do so.

As the Public Representative understands it, the Postal Service and Commission improved on existing methodology, but were unable to create the perfect methodology. With continued inability to align discounts, the Commission in its most recent rulemaking proceeding pertaining to this matter stated that it "expects that the Postal Service shall file a fully supported proposal that would correct the anomaly as soon as practical and in time for the Commission to full approve the new structure and/or methodology before the planned July 2023 price increase."[8] And so on February 10, 2023, the Postal Service filed their Petition with the Commission.

PROPOSAL

The Postal Service wants to streamline and simplify their pricing structure for flat-shaped Marketing Mail pieces with piece and pound price components. They propose developing the per-piece price first, instead of the current practice of developing the heavier weight pound pricing first. Petition at 7. In this proposal and for this new paradigm, the Postal Service makes four assertions:

(1) Every piece, regardless of its weight, will pay a fixed, per-piece price. The per-piece price will vary based on the entry, i.e. prices for Origin, DNDC, DSCF, and DDU dropshipped pieces will differ based on how far from their destination pieces are entered;

(2) In addition to the fixed, per-piece price, pieces heavier than the breakpoint will pay a per-pound price for pounds above the breakpoint. In other words, the pound prices are only applicable to the weight above 4 ounces. A piece weighing 6 ounces will only pay pound prices for 2 ounces (ounces 5 and 6), not all 6 ounces;

[8] Docket No. RM2022-12, Order Approving Postal Service Application for Waiver Under 39 C.F.R. § 3030.286, August 30, 2022 (Order No. 6261).

(3) All dropship discounts will be piece-price based, and use the piece cost avoidances provided in Folder 13 filed with the ACR;

(4) Pound prices will not vary by dropship entry point (DNDC, DSCF, or DDU). Id at 7 and 8.

The Postal Service claims that this new structure will allow them to retire the current methodology for calculating workshare discount passthrough percentages at issue here and use the same methodology as they use for most other products, dividing the per-piece discount by the per-piece cost avoidance. Id at 8. Figure 2 shows the Postal Service's intended formulaic change.

Figure 2 – Proposed Methodology to Calculate Passthrough

Passthrough= Per-piece dropship discount/per-piece dropship cost avoidance (Folder 13)

Source: Petition at 8

The Postal Service contends that by replacing the price structure with the new structure based upon pieces rather than pounds, workshare discount passthrough percentages cannot vary with the different weights of the pieces mailed because passthrough percentages will be calculated independently of the volumes and weights of pieces mailed. Id at 9. They maintain that the new pricing paradigm removes the underlying cause of the problem where it was difficult, and sometimes impossible, for the Postal Service to make passthrough percentages for some flat-shaped Marketing Mail pieces comply with 39 C.F.R. §§ 3030.283 and 3030.284. Id.

COMMENTS

Along with the Petition, the Postal Service filed a supporting Excel file titled "RM2023-4 Illustrations.xlsx." That file provides a comparison of the old passthroughs and how they would fare under the proposed structure for Docket Nos. R2021-2, R2022-1, and R2023-1. The Postal Service was able to demonstrate marked improvement using the new structure. Table 2 shows passthrough compliance

(Percentage between 85 and 100) between the old and new systems when applied to the aforementioned dockets.

Table 2 – Number of Compliant Passthroughs
Using Old Structure and New Structure

	R2021-2	R2022-1	R2023-1
Old Structure	0/6 (0%)	6/8 (75%)	6/8 (75%)
New Structure	6/6 (100%)	8/8 (100%)	8/8 (100%)

Source: Excel file "RM2023-4 Illustrations.xlsx," tabs "R2021-2 CR Flats Prices," "R2022-1," and "R2023-1."

On February 24, 2023, the Commission issued Chairman's Information Request No. 1 and the Postal Service replied on March 3, 2023.[9] In their questions, the Commission sought clarification on the future application and scope of this proposal, along with wanting more assurances about incremental pricing equity. In their response to question 4, the Postal Service reiterated their intention to maintain incremental pricing equity between pieces. They included their intended formulas written out in a clear manner:

Figure 3 – CHIR Response Indicating
Postal Service's Intentions and New Formulas

Every piece at a given presort level, regardless of its weight, will pay a uniform piece price. The per-piece price will vary based on entry level, and this variance will be the basis for the dropship discounts.

Pieces above the breakpoint weight of 4 ounces will also pay a per-pound price for the pounds above the breakpoint. The per-pound price at a given presort level will not vary with entry level.

Weight ≤ 4 oz. Rate = Per-Piece Rate

*Weight > 4 oz. Rate = Per-Piece Rate + (Per-Pound Rate/16) * (Piece Weight in oz.- 4)*

Source: CHIR Response question 4.

The Public Representative believes that the Postal Service did a good job answering the Commission's questions. The response to question 4 was especially helpful as it fixed all consternation related to the Petition's Figure 4, which shows the

[9] Responses of the United States Postal Service to Chairman's Information Request No. 1, March 3, 2023. (CHIR Response)

current formula for pricing pieces less than 4 oz. as a function of the per-pound rate for pieces above 4 oz. The Public Representative views this change as an improvement.

The primary objection the Public Representative can imagine for this proposal is from the mailing community that has appreciated and profited from the volatility of the current system. A passthrough over 100 percent represents an opportunity for the mailing community to participate from an advantaged position and derive more lucrative results than intended. This proposal will allegedly prevent those instances from happening in the future, which is good for a healthy mailing ecosystem.

The Public Representative does wonder what the impact on volumes this change might have. The Postal Service made this change to adhere to regulatory compliance and did not appear to seek input from the relevant mailers before submitting their Petition. So, while in the previous paragraph the Public Representative made mention of a healthy mailing ecosystem, he simultaneously wonders about “best” choices which may not be the healthiest, as the Postal Service’s relevance is intertwined with the volume of mail it can send. A continued downward trend of volume will introduce a future set of problems. However, the Postal Service cannot permit itself to offer discounts exceeding the avoided cost.

At its core, the Postal Service’s proposal here seeks to streamline and simplify a distinct category of Postal operations that has shown itself to be both confusing and noncompliant with the law. The Public Representative believes that the Postal Service has made a good faith attempt to remedy this problem.

Reviewing the Postal Service’s Petition, the Illustrations Excel file, the CHIR Response, and drawing from the Public Representative’s own understanding of the mess that is flat-shaped Marketing Mail pieces, the Public Representative urges the Commission to approve the Postal Service’s Petition. As has been customary in the past, the methodology put forth in this Petition can be modified or improved upon in the future should problems arise.

The Public Representative respectfully submits the foregoing comments for the Commission’s consideration.

Christopher Mohr
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6857
Christopher.Mohr@prc.gov