

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

Annual Compliance Report, 2014)

Docket No. ACR2014

**INITIAL COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(February 2, 2015)**

Pursuant to Order No. 2313, the Association for Postal Commerce (“PostCom”) submits these comments on the Annual Compliance Report (“ACR”) for Fiscal Year 2014 filed by the United States Postal Service (“Postal Service”) on December 29, 2014. While PostCom does not contest the Postal Service’s compliance with its statutory responsibilities in FY 2014, the information presented in the ACR nevertheless raises several concerns of which the Commission should be aware.

**I. COST REDUCTION STRATEGIES HAVE NOT REDUCED OVERALL
INDUSTRY COSTS**

As detailed in the ACR for 2014 and years prior, the Postal Service has been pursuing a number of strategies to reduce its costs over the past several years. Prominent among these are the implementation of Intelligent Mail processes and technology; its Flats strategy, including the move to FSS and the introduction of more automated processes; load leveling; Seamless acceptance; and Network Rationalization. While PostCom applauds the Postal Service’s attention to reducing costs, the information presented in the ACR suggests that these efforts have not been as effective as the Postal Service projected.

If the Postal Service’s cost-cutting efforts were simply ineffective, that would be unfortunate, but not cause for undue concern. But the efforts pursued by the Postal Service have relied primarily on the shifting of costs to mailers, rather than reducing the overall costs of

processing the mail. Accordingly, the Postal Service's efforts have actually resulted in increased costs to the industry, as the costs to both mailers and the Postal Service have increased.

All USPS strategies have cost implications to the industry. These costs include the cost to implement new preparation requirements, the costs of software changes and upgrades, the costs of complying with new standards, and the costs of modifying business strategies to meet Postal Service incentives and requirements. In some cases, these costs are outweighed by the increase in efficiency that comes when the industry takes over aspects of mail processing, preparation, and transportation. Thus, the industry has been willing—in fact eager—to assume many of these duties. Doing so can result in an overall decrease in costs to the entire mail supply chain. In recent years, however, the costs imposed on industry have begun to approach an unsustainable level, and the Postal Service has not seen a corresponding reduction in its costs.

In its Motion for Issuance of Information Request in this docket, PostCom identified several initiatives the Postal Service claimed would reduce its costs for certain products or activities, but for which the data in the ACR indicate costs have actually increased. For instance, in the ACR for 2013, the Postal Service stated: “[Flats Sequencing System (“FSS”)] has increased the mail processing costs of Flats as the sequencing activity has moved from delivery to mail processing. However, these increased costs are offset by lower delivery costs.” USPS FY 2013 Annual Compliance Report at 23 (Docket No. ACR2-13). Yet Delivery costs for Standard Mail Flats rose over 8 percent from FY 2013 to FY 2014 while at the same time, mail processing costs for Standard Mail Flats rose almost 9 percent. As mailers have incurred additional costs to prepare mail to meet FSS standards, the Postal Service has not seen a reduction in either processing or delivery costs from the implementation of this initiative. While

the Commission has asked for an explanation of this discrepancy, the Postal Service has yet to respond.

Likewise, with respect to the Phase I of its Network Rationalization plan, described in Docket No. N2012-1, the Postal Service projected annual cost reductions of \$1.2 billion. *See* Advisory Opinion on Mail Processing Network Rationalization Service Changes, Docket No. N2012-1, at 64. Actual savings, however, have been closer to \$0.9 billion. In response to Chairman’s Information Request No. 3, the Postal Service explained that the projected savings and the actual savings reported by the Postal Service do not necessarily refer to the same activities and are not comparable.¹ The Postal Service also stated, however, that “it has not developed a methodology for quantifying any network rationalizations savings or costs on the basis of specific products or mailpiece shapes.”² Clearly, any cost savings achieved by these changes have not reduced the reported costs of processing certain products, particularly Standard Mail Flats. The question remains as to where in the Postal Service system these cost savings can be found.

A similar issue arises with respect to the Postal Service’s Load Leveling initiative. The Commission recommended that the Postal Service “undertake a cost-benefit analysis at the nationwide level to develop necessary information before proceeding with a nationwide rollout of the Load Leveling Plan.”³ The Postal Service did not undertake such an analysis, and it admits that it “has not developed a methodology for systematically measuring the facility-specific or network operational costs and benefits unique to Load Leveling.”⁴ The Postal Service claims

¹ *See* Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman’s Information Request No. 3 (Jan. 30, 2015) (response to Question 6.a.).

² *Id.*, response to Question 6.b.

³ Docket No. N2104-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014 at 32.

⁴ Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman’s Information Request No. 3 (Jan. 30, 2015) (response to Question 5 a and b).

any savings associated with Load Leveling would be “reflected in the expenditures for delivery operations,” but it cannot “isolate those costs from the aggregate.”⁵ As discussed above, delivery costs for Standard Mail Flats have increased even with the implementation of Load Leveling. Without better data, however, it is impossible to tell whether the Load Leveling strategy has limited these increases or furthered them.

The Postal Service must be more accountable to the industry in reporting how its strategies are reducing costs, how the cost reductions will support a more effective and efficient USPS, and how these reductions will benefit the overall mailing industry. Further, the Commission and the industry must be able to understand whether and how these strategies, and the changes they entail, allow the Postal Service to provide the same level of service at lower costs. From the information available to date, they seem to be having the opposite effect—increased costs and lower levels of service while increasing the burden placed on mailers, resulting in a hidden price increase.

II. IMPROVEMENTS IN COST REPORTING COULD AID IN ASSESSING THE EFFECTIVENESS OF POSTAL SERVICE INITIATIVES

Ultimately, it is difficult to evaluate the true impact of the Postal Service’s cost reduction strategies. The ACR does not report, in one place, the costs of the various processing, transportation, and preparation activities associated with each rate category. That is, while basic cost coverage percentages are displayed, the cost attributed to each rate category from processing, transportation, delivery, and the like can only be discerned by delving into the various worksheets accompanying the filing. This inefficient process leads to multiple rounds of information requests and uncertainty as to whether the various costs associated with and attributable to a rate category have been correctly identified.

⁵ *Id.* (response to Question 5.e.).

A simple change to the format of the ACR would alleviate these problems and allow interested parties to more easily assess trends in the attributable costs associated with all rate categories. The Commission should direct the Postal Service to include in future reports top-level work papers containing, in one place, the attributable costs associated with each rate category broken out by activity. Such a worksheet would enable stakeholders to more easily identify the costs associated with a rate category while also permitting comparisons year over year. Through such comparisons, mailers, the Postal Service, and the Commission can better understand what is driving cost reductions or increases across classes and shapes.

III. CONCLUSION

In general, PostCom supports the Postal Service's efforts to reduce costs. But the Postal Service, and the Commission, must understand that much of what is described as "cost cutting" is really "cost shifting." To the extent that such cost shifting results in more efficient preparation of mail and the reduction of overall industry costs, it is acceptable. But when additional costs are placed on mailers, and the Postal Service does not experience concurrent reductions in its costs, something is amiss. By increasing the transparency of cost reporting, the Commission will be better able to evaluate the Postal Service's activities and ensure that they preserve the health of the industry as a whole.

Respectfully submitted,

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