

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001

NOTICE OF MARKET-DOMINANT PRICE )  
ADJUSTMENT ) Docket No. R2015-4

COMMENTS OF  
MPA—THE ASSOCIATION OF MAGAZINE MEDIA  
(February 19, 2015)

Pursuant to Order Nos. 2327 and 2340, MPA—The Association of Magazine Media (“MPA”) respectfully submits these comments on the rate design changes proposed by the Postal Service in this docket for Periodicals Outside-County Mail. MPA and its members have not yet been able to determine the precise impact of the significant changes that the Postal Service has proposed. Many new rate elements and preparation rules require additional analysis. MPA, however, has a long history of supporting greater cost recognition in the Periodicals rate structure. MPA has repeatedly expressed its support for efficient component pricing, which provides full passthroughs of cost savings from mailer worksharing. Full passthrough gives both mailers and the Postal Service the right incentives to maximize efficiency and minimize the total costs of publishers, mail service providers and the Postal Service in handling this mail.

MPA’s initial review of the rate changes, however, has identified two significant departures from full cost recognition. Both are likely to impair the achievement of lowest combined costs for mailers and the Postal Service. The Postal Service should be encouraged to remedy these defects in the next market dominant price adjustment.

The first problem area involves the discounts offered for the Carrier Route Basic category. In past rate cases, the Postal Service limited these discounts to a fraction of the costs that the Postal Service avoids because of this preparation. The Postal Service defended low Carrier Route Basic passthroughs on the theory that Carrier Route Basic preparation had little value in Flat Sequencing System (“FSS”) zones. MPA has repeatedly questioned this reasoning because only a quarter of flats mail volume is processed on FSS equipment. Recent developments, however, have stripped the Postal Service’s previously weak explanation of any validity. The Postal Service now allows Carrier Route Basic preparation—and offers Carrier Route Basic prices—only in non-FSS zones. Carrier Route Basic preparation clearly has substantial value to the Postal Service in non-FSS zones.

In this docket, the Postal Service nonetheless has proposed a Carrier Route Basic pass-through equal to only 61.6 percent of avoided costs. USPS Notice of Market-Dominant Price Adjustment (USPS Notice), Attachment B. The low pass-through is particularly problematic because the Carrier Route Basic discount is the primary incentive for publishers to comail their publications. Rates for Carrier Route Basic mail that pass-through significantly less than 100 percent of the costs avoided by the Postal Service discourage mailers from engaging in comailing even when comailing would reduce the combined costs of mailers and the Postal Service. In the next CPI-based rate adjustment, the Postal Service should increase the Carrier Route Basic discount to 100 percent of the costs avoided by the Postal Service from this preparation.

The second problem area involves pallet prices. In this docket, the Postal Service proposes for the first time to set most of the Periodicals Outside County pallet

prices equal to the Postal Service’s estimated pallet-handling costs for Periodicals. USPS Notice, Attachment B, “Per. Bundle-Container Pricing.” This would be a desirable approach if the Postal Service’s estimates of these costs were accurate. Unfortunately, the Postal Service’s estimates of its pallet-handling costs are overstated because the pallet-handling productivities on which they are based are substantially understated. Last year, the Postal Service performed a field study to update, among other factors, the pallet productivities used in several Standard Mail and parcel mail processing cost models. As shown in Table 1 below, the pallet productivities derived from this recent study, which were approved by the Commission for use in these models in Order No. 2315, are much higher than the much older productivity estimates used in the Periodicals cost model (USPS-FY14-11):

**Table 1. Selected Pallet Handling Productivities (P&DC)**

<b>Operation</b>	<b>Periodicals Cost Model</b>	<b>2014 Field Study</b>
	[1]	[2]
Unload	11.6 Units / Hour	57.6 Units / Hour
Cross-dock	9.5 Units / Hour	39.5 Units / Hour

[1] USPS-FY14-11, USPS-FY14-11 PER\_OC\_flats.xlsx, “PRODUCTIVITIES”

[2] USPS-FY14-13, USPS-FY14-13.STD.xlsx, “Productivity”

Continuing to base pallet charges on the outdated estimates of pallet handling productivities in the Periodicals Cost Model harms both the Postal Service and its customers. The submission of mail on efficient, highly-presorted pallets that travel as a single handling unit until deep into the postal network (i.e., until they reach the DSCF or DDU) is highly beneficial to the Postal Service. By traveling as a single unit through the postal network, these types of pallets minimize USPS bundle-handling costs.

Overstated pallet charges, however, encourage mailers to make up pallets that are less finely presorted. This is not a trivial problem: using the grossly understated productivity estimates of the Periodicals Cost Model yields pallet handling charges as high as 300 percent of actual costs for several key pallet types (DSCF-entered 5-digit, DADC-entered 5-digit, and DSCF-entered 3-digit).

Before the next market-dominant price adjustment, the Postal Service should update the Periodicals cost model using the updated pallet-handling and other container-handling productivities from the 2014 field study. If the USPS believes these productivities do not apply to Periodicals, it should perform a similar field study to update the Periodicals cost model.

Respectfully submitted,

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