

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

ANNUAL COMPLIANCE REPORT, 2015

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Docket No. ACR2015

INITIAL COMMENTS OF
THE ASSOCIATION OF MAGAZINE MEDIA

(February 2, 2016)

Pursuant to Order No. 2968, MPA – The Association of Magazine Media (“MPA”) respectfully submits these initial comments on the Postal Service’s FY 2015 Annual Compliance Report (“ACR”).

As the national trade association for the consumer magazine industry, MPA represents approximately 175 domestic magazine media companies with more than 900 national publications, both print and digital, covering an enormous range of subjects. The magazine publishing industry plays a prominent role in culture, society and the economy by fulfilling readers’ desires for timely information and entertainment that appeal to a broad spectrum of personal interests. MPA members connect more than 90 percent of all adults in the United States with the print and digital magazine titles that consumers trust and value most.

These comments focus on three issues. The first two involve aspects of the Postal Service’s noncompliance with the Commission’s mandate in its Annual Compliance Determination for Fiscal Year 2014: (1) the directive to provide a *detailed analysis* of its

progress in improving the Periodicals cost coverage as part in its FY 2015 ACR; and (2) the underlying purpose of the reporting directive: to induce the Postal Service to make operational and pricing changes that significantly improve the overall cost coverage of Periodicals Mail. The third issue involves the adverse effects of the FSS deployment on Postal Service costs.

A. The Postal Service's Annual Compliance Report for FY 2015 fails to provide the detailed analysis required by the Commission.

The Commission's Annual Compliance Determination for FY 2014 ordered the Postal Service to submit the following information in its Annual Compliance Report for FY 2015:

For Periodicals, in the FY 2015 ACR, the Postal Service must provide a detailed analysis of the progress made in improving cost coverage. This analysis shall include:

- The *impact* of leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing
- A detailed analysis of the *cost* and *contribution impact* of the worksharing incentives offered for 5-Digit and Carrier Route presortation
- The progress in developing metrics to assess the *cost savings impact* of operational strategies
- The *cost savings* from the implementation of operational strategies outlined in Chapter 7 of the Periodicals Mail Study and the Flats Strategy
- The progress in implementing pricing strategies outlined in Chapter 7 of the Periodicals Mail Study

FY 2014 ACD (issued March 27, 2014) at 2 (emphasis added).

The Postal Service's Annual Compliance Report for Fiscal Year 2015 did not comply with these requirements. Instead, the report offered little more than a narrative description of the operational and pricing changes that the Postal Service has made or assertedly plans to make in the coming year, interspersed with a handful of metrics. Annual Compliance Report, December 29, 2015, at 18-28, 44-46. The Postal Service, however, has provided no quantification at all of the financial impact of these initiatives. See, e.g., FY 2015 ACR at 19. The Commission should require the Postal Service to correct this major omission.

B. The Postal Service has ignored the Commission's directive to redesign the Periodicals rate structure to give mailers stronger incentives to engage in cost-saving practices such as Carrier Route preparation and comailing.

What is publicly known about the Postal Service's operational and pricing changes during Fiscal Year 2015 is troubling. Contrary to the Commission's directive, the Postal Service did *not* "leverag[e] [its] pricing flexibility to improve the efficiency of Periodicals pricing" for 5-Digit and Carrier Route flats in FY 2015.¹ The changes made to the Periodicals rate design in FY 2015 were steps backward. They *worsened* the economic disincentives against Carrier Route preparation and comailing, both of which could greatly reduce Postal Service costs.

As the Commission detailed in its FY 2014 ACD, the passthrough for Periodicals Carrier Route Flats has been well below 100 percent since Fiscal Year 2009, and the passthrough for 5-Digit Automation Flats has been above 100 percent since Fiscal Year

¹ Encouraging the entry of more Carrier Route pallets in non-FSS zones, FY 2015 ACR at 46, is less important (and affects much less mail volume) than getting the rate relationship between 5-Digit Automation and Carrier Route flats right.

2010. The Postal Service nonetheless chose not to remedy this important inefficiency in its FY 2015 rate adjustment, leaving the Carrier Route passthrough at about 60 percent. FY 2014 ACD at 15; USPS-FY15-5, FY15 3 Worksharing Discount Tables.xls, “Periodicals Outside County.” This low passthrough discourages efficient Carrier Route preparation and comailing by the Periodicals industry. *Id.* at 16; Docket No. R2015-4, Comments of MPA – The Association of Magazine Media (February 19, 2015) at 2.

Additionally, by substantially increasing the passthroughs underlying bundle rates in 2015,² the Postal Service has further discouraged Carrier Route preparation relative to 5-Digit Automation. This is because Carrier Route bundle rates, in general, are substantially greater than those for 5-Digit flats. Notice 123, *Price List* (effective Jan. 17, 2016) at 27.

C. The Postal Service’s own data indicate that the FSS deployment has substantially increased processing and delivery costs for Periodicals Mail.

Fiscal Year 2015 was the first year for which the Postal Service included calculations of workshare cost avoidances for FSS Automation and FSS Nonautomation Flats in the ACR. USPS-FY15-3, FY15 3 Worksharing Discount Tables.xls, “Periodicals Outside County.” What these calculations show about the relationship between mail processing and delivery costs for FSS and Carrier Route Basic flats—and the success or failure of the FSS deployment—is alarming.

² If the Carrier Route discount passed through 100 percent of the cost differences between 5-digit Automation Flats and Carrier Route Flats, MPA would support the Postal Service’s decision to greatly deepen the passthrough underlying bundle rates.

As shown in Table 1 below, the data reveal that unit mail processing and delivery costs for FSS flats are *more than double* the corresponding costs for Carrier Route Basic flats:

Table 1. FY 2015 Unit Mail Processing and Delivery Costs for Periodicals Outside-County Carrier Route Basic and FSS Flats

	Carrier Route Basic	FSS Automation	FSS Nonautomation
Mail Processing	\$0.002	\$0.143	\$0.157
Delivery	\$0.130	\$0.152	\$0.152
Total	\$0.132	\$0.296	\$0.309

USPS-FY15-3, FY15 3 Worksharing Discount Tables.xls, "Periodicals Outside County"; figures do not sum because of independent rounding.

This disparity is particularly problematic because the Postal Service has forced publishers to convert Carrier Route Basic flats, which represent the majority of Periodicals flats, to FSS preparation when the flats are addressed to destination zones designated by the Postal Service as FSS zones.³ When the Postal Service was in the process of deciding whether to invest in the FSS, the publishing industry and other mailers of flats repeatedly expressed concerns to the Postal Service about creating multiple processing streams for flats. The mailers' concerns went unheeded. The Postal Service insisted that FSS would substantially reduce the Postal Service's costs (in particular, carrier costs) and improve the cost coverage for flats. The data summarized in Table 1 indicate that the opposite has occurred, just as mailers feared.

³ An additional problem with the newly-established FSS pricing is that it substantially reduces the postage incentive to comail. Reduced comailing will increase Postal Service costs by reducing container and bundle size and degrading container and bundle presort.

One of the most basic principles of public utility and common carrier ratemaking, reflected in 39 U.S.C. §§ 3622(b)(1) and (8), 3622(c)(12), and 3622(d)(1)(E), is that costs should be attributed to captive services only if those costs reflect costs of providing service under prudent, economical and efficient management. To understand better the effect of the FSS deployment on postal costs and inform future decision making about FSS (e.g., whether to expand FSS processing to additional ZIP Codes and thus force additional low-cost Carrier Route flats to more expensive FSS processing), the Commission should require the Postal Service to perform a detailed comparison (by class of mail) of the average mail processing and delivery costs for (1) (non-high-density/saturation) flats destinating in FSS zones and (2) those destinating in non-FSS zones. The Commission should require the Postal Service to include the findings and underlying workpapers in its FY 2016 ACR.

CONCLUSION

The Postal Service's noncompliance with the Commission's directives to (1) perform detailed analysis of the actual effectiveness of operational and pricing strategies purportedly aimed at improving, and (2) fully implement such strategies is particularly problematic in this case. So are the data indicating that FSS deployment has increased, not reduced, mail processing and delivery costs.

As the Commission is aware, the low reported cost coverage of Periodicals has been a sore spot in postal ratemaking for several years. The persistence of the less-than-100 percent reported cost coverages is the direct result of the Postal Service's failure to increase its efficiency in handling Periodicals mail despite "large investments in automation equipment by the Postal Service, and large increases in worksharing by

periodical publishers and their mail services providers.” Docket No. ACR2014, Reply Comments of Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers filed February 13, 2015 (“MPA-ANM Reply Comments”) at 2.

Accordingly, the Commission should require the Postal Service to (1) deepen the passthrough of the cost differences between 5-Digit Automation and Carrier Route Periodicals Mail in the next rate adjustment; (2) take other major steps to rein in the costs of handling Periodicals Mail; (3) provide full quantification of the extent of the changes and their effects on cutting costs; and (4) provide more detailed data on the effects of the FSS deployment on the mail processing and delivery costs of flat-shaped mail.

Respectfully submitted,

A handwritten signature in black ink that reads "David M. Levy". The signature is written in a cursive, flowing style.

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