

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

_____)	
Periodic Reporting)	Docket No. RM2020-13
(Proposal Six))	
_____)	

**COMMENTS OF MPA – THE ASSOCIATION OF MAGAZINE MEDIA,
THE ASSOCIATION FOR POSTAL COMMERCE, AND
THE AMERICAN CATALOG MAILERS ASSOCIATION**

NOVEMBER 24, 2020

Pursuant to Commission Order No. 5694, “Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six),” (Sept. 23, 2020), MPA, PostCom, and ACMA (“Joint Commenters”) respectfully comment in support of the Postal Service’s proposal for estimating the volume variability of labor costs associated with the automated distribution of letters and flats. See USPS Pet. (Sept. 15, 2020).

Joint Commenters’ members are heavy users of flats and letter mail who account for most of the flats volume carried by the Postal Service. We are concerned with the viability and efficiency of the Postal Service in handling all our mail, and in the reported costs for flats mail in particular. As major USPS customers, we want – and need – the Postal Service to offer an affordable and efficient flats service. And we are invested in working with the Postal Service to bring this about.

We Agree That Cost Variabilities Should Be Based on Empirical Data, Not Untested Assumptions

Joint Commenters commend the Postal Service for empirically estimating the variability of mail processing costs in automated letter and flat sorting operations (*i.e.*,

DBCS, AFSM 100, and FSS operations). Empirical estimation is an improvement over the current approach of simply assuming that these costs are essentially 100 percent variable, an assumption that overstates flats costs if there are meaningful economies of scale.

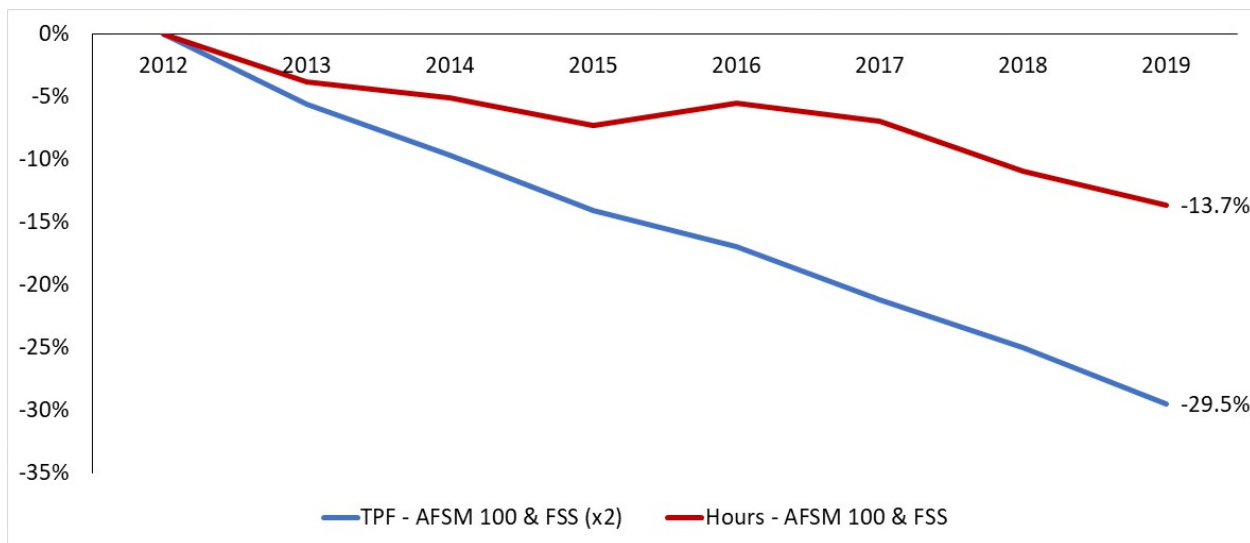
We also are unsurprised by the Postal Service's finding that flats sorting costs are less than fully variable. We observed that this is so in each of the Commission dockets in which mail processing volume variability was litigated, and we also consistently supported the use of empirical analysis in lieu of untested assumptions in estimating variabilities. For example, as early as Docket No. R97-1, MPA stated that:

[I]t is clear that there are certain mail processing functions where the time needed to perform the function doesn't depend on the volume processed. As witness Bradley testifies: 'Certain functions, like setting up mail processing equipment or tying down a manual case are done for each sorting scheme and are not sensitive to the amount of volume sorted...the existence of these relatively fixed functions in an activity will cause the activity's variability to be less than one hundred percent.'

Docket No. R97-1, Direct Testimony of Rita D. Cohen on Behalf of Magazine Publishers of America (December 30, 1997), at 16. In R2000-1, MPA noted that the Postal Service witness provided "an extensive operational analysis supporting the concept that mail processing volume variability is less than 100 percent." Docket No. R2000-1, Direct Testimony of Rita D. Cohen on Behalf of Magazine Publishers of America *et al.* (May 22, 2000), at 22-23. And in R2006-1, we again observed that "the structure of Postal Service sorting operations is such that the number of sort schemes run—and therefore the time spent in setup and takedown—are better characterized as fixed rather than variable with respect to volume changes." Docket No. R2006-1, Rebuttal Testimony of Stuart W. Elliot on Behalf of MPA *et al.* (Nov. 20, 2006) at 4.

As Figure 1 below shows, the Postal Service’s finding is also consistent with the fact that automated flats sorting workhours have declined at a much slower rate than has the number of sorts (total pieces fed or TPF) on automated flats sorting equipment from FY 2012 (when the FSS deployment was complete) to FY 2019.¹

Figure 1. AFSM 100 & FSS Total % Change (Index FY 2012 = 0)²



Source: Supporting Workpapers.xlsx

The Postal Service’s results make sense, and we encourage the Commission to approve the Postal Service’s proposed approach.

The Postal Service Must Still Pursue Flats Operations Cost Controls

While Joint Commenters believe that the Commission should approve the Postal Service’s proposal, we also believe that the Commission’s analysis should not end there.

¹ Analysis of Labor Variability for Automated Letter and Flat Sorting, A. Thomas Bozzo & Tim Huegerich, Christensen Associates (September 15, 2020), at 10-12.

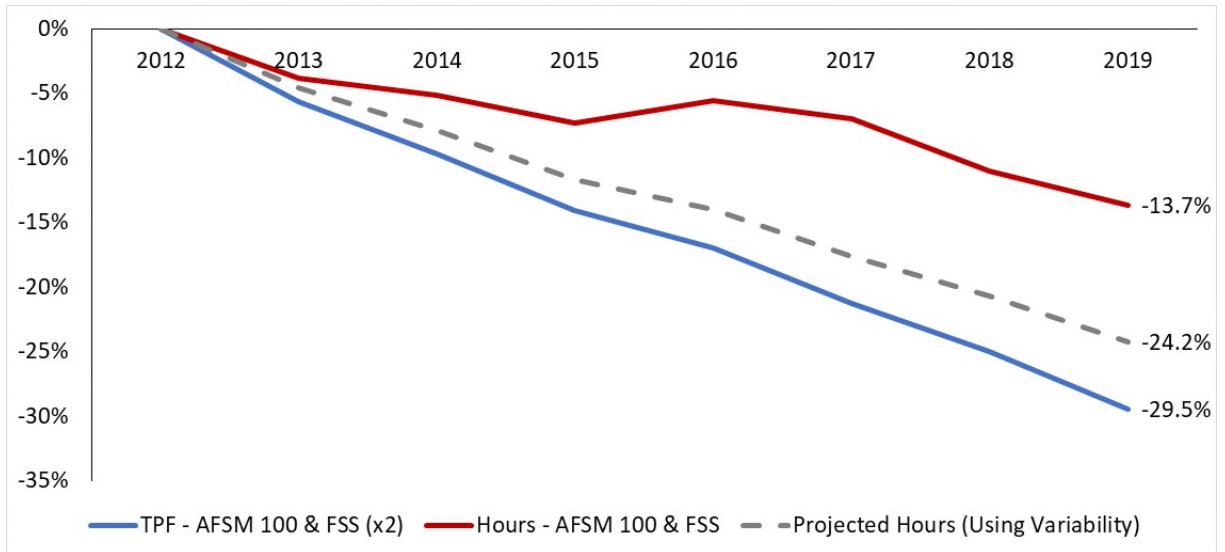
² “[T]he FSS records a single TPF representing both sorts.... Thus, FSS TPF are multiplied by 2 to put the TPF measurements on equal footing.” Analysis of Labor Variability for Automated Letter and Flat Sorting, A. Thomas Bozzo & Tim Huegerich, Christensen Associates (September 15, 2020), at 13.

The USPS projects variabilities of 77.4 percent (AFSM100) and 80.4 (FSS) under its proposed method, see Proposal Six at 6, but USPS has failed to drive out costs that these variabilities suggest they should have. Factors other than pure scale effects – such as management inattention to maximizing processing efficiency – likely account for some of the disconnect between workhour and TPF reduction. We thus urge the Commission to consider not only *how* workhours respond to volume declines, but *why*.

Data filed by the Postal Service in this docket provide further proof that the Postal Service has not appropriately rightsized either its flats sorting workforce or infrastructure in response to declines in flats sorting workload. First, as Figure 2 below shows, total workhours in automated flats sorting operations have declined by less than half the decline in TPF since FY 2012, well behind the much larger workhour reduction that would be expected based upon USPS-estimated variabilities (approximately eighty percent) for AFSM 100 and FSS operations. This indicates that the Postal Service has not rightsized workhours by anywhere close to achievable amounts.³

³ The result is also true when looking just at the FY 2016 to FY 2019 period used in the Postal Service's econometrics. Supporting Workpapers.xlsx.

Figure 2. % Change in AFSM 100 & FSS Hours and TPF (Index FY 2012 = 0)



Source: Supporting Workpapers.xlsx

As Table 1 below shows, this less-than-achievable reduction in flats sorting workhours holds individually for the AFSM 100 and FSS operations as the ratio of the percent reduction in hours to percent reduction in TPF is well below 80 percent in both operations, particularly for the much larger AFSM 100 operation.

Table 1. Percent Reduction in Hours and TPF (FY 2012 – FY 2019)

Operation	TPF	Hours	Decline in Hours as % of Decline in TPF
AFSM 100	-32.3%	-13.2%	40.9%
FSS	-23.2%	-15.0%	64.6%
AFSM 100 & FSS	-29.5%	-13.7%	46.4%

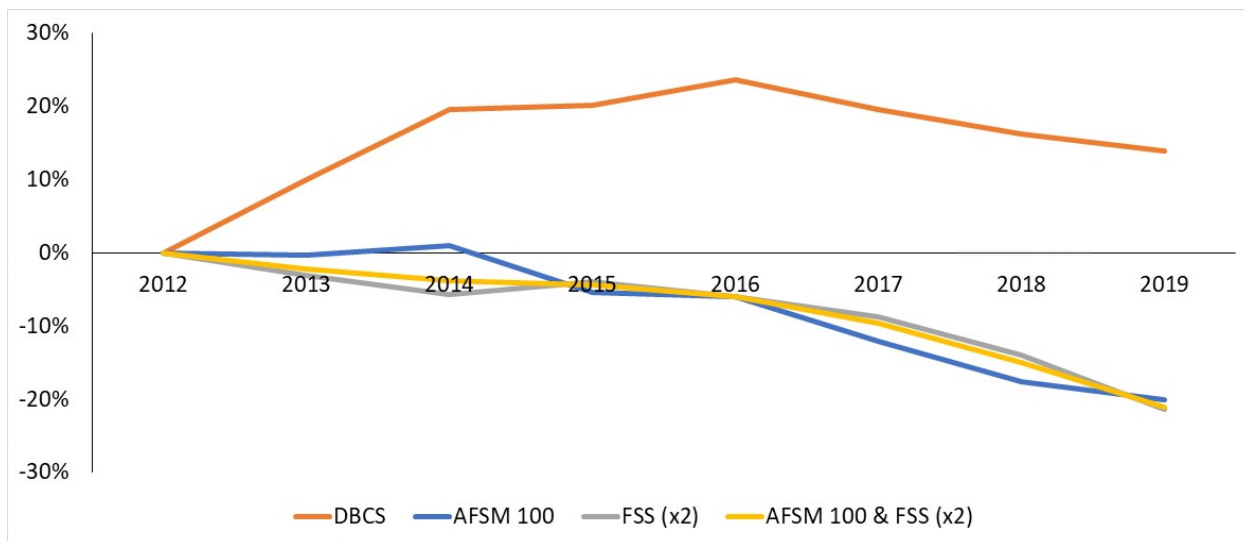
Source: Supporting Workpapers.xlsx

Second, as observed by Bozzo and Huegerich⁴ and shown in Figure 3 below, unlike in the DBCS operation where the Postal Service retained (and even increased) its

⁴ Analysis of Labor Variability for Automated Letter and Flat Sorting, A. Thomas Bozzo & Tim Huegerich, Christensen Associates (SeptemberFinal 15, 2020), at 13-14.

facility-level operational scale over the last 7 years through facility consolidation, the Postal Service did not adequately retain scale for flats sorting. Consolidating flats sorting on fewer machines would have allowed the Postal Service to reduce flats infrastructure and labor costs further.

Figure 3. TPF / Facility Total % Change (Index FY 2012 = 0)



Source: Supporting Workpapers.xlsx

In addition to evaluating the Postal Service’s costing proposal, we encourage the Commission to hold the Postal Service accountable for eliminating its clear excess capacity and workhours in flats sorting operations.

The Commission Should Continue Encouraging Pricing Efficiency

Finally, the Postal Service may view the less-than-100 percent variability of automated flats sorting operations as a justification for reducing flats presort discounts. We, however, would note that the passthroughs underlying most flats presort discounts

are less than 100 percent,⁵ often substantially so, and would urge the PRC to encourage the Postal Service to increase passthroughs closer to more efficient levels, rather than cut discounts.

Indeed, even based upon the lower variability estimates, the January 2021 Periodicals Carrier Route Basic discount would be less than 75 percent - well below the corresponding cost avoidance. We have urged the Postal Service to increase workshare discounts to a much higher percentage of avoided costs in numerous other rate and ACR dockets, and will not repeat those entreaties here – especially because the Commission itself has long recognized that passthroughs set closer to 100 percent yield more pricing efficiency. We will simply adopt the reasons detailed in those previous filings, and state that this discount should be increased regardless of whether Proposal Six is approved. While improvements in analyses are always welcome, practical moves towards efficiency are more welcome still. The Postal Service must continue to move toward more efficient pricing and operations to achieve real-world improvements in efficiency and service.

Conclusion

Joint Commenters believe that it is now time to abandon the assumption that most mail processing activities are nearly 100-percent volume variable. That assumption lacks empirical support. We believe that the Postal Service's proposal has merit, and that the Commission should approve it. We also urge the Commission to look beyond the Postal Service's costing proposal, and to hold the Postal Service accountable for rightsizing its flats sorting operations in response to volume declines.

⁵ See Docket No. R2021-1, United States Postal Service Notice of Market-Dominant Price Change (October 9, 2020), attachment b r2021-1.xls, "Periodicals Outside County" and "USPS MM Flats Prsrt Prebcd."

Respectfully submitted,

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