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

ANNUAL COMPLIANCE REPORT, 2023	Docket No. ACR2023

COMMENTS OF THE
THE NEWS/MEDIA ALLIANCE
(January 30, 2024)

The News/Media Alliance ("N/MA") respectfully submits these comments on the Postal Service's Annual Compliance Report for Fiscal Year 2023 ("*ACR*"), filed December 29, 2023. As the leading voice for the news and magazine media industries, N/MA will address Periodicals costing, pricing, and service performance issues.

Many N/MA members depend heavily on postal delivery -- especially rural and suburban newspapers and magazines that require national distribution. For years, N/MA and its predecessor organizations have expressed strong concerns about Periodicals Mail costs, prices, and service. Unfortunately, the *ACR* does not alleviate our concerns. Instead, it makes clear that the Postal Service's strategy of above-inflation rate increases for Periodicals – since August 2021, Periodicals rates have risen by about 205 percent -- coupled with its hopes that various initiatives might restrain flats costs or improve Periodicals service is failing.

Most notably, the Postal Service's unit cost for Periodicals rose by over 11 percent in FY 2023. *ACR* at 40. Although the Postal Service cites inflation as a cause of its cost increases, inflation in FY 2023 was only about 4 percent,[1] but the amount by which Periodicals costs exceeded inflation was nearly double that amount.

Periodicals mail consists predominantly of flat-shaped pieces. The Commission is quite familiar with the Postal Service's longstanding and unresolved challenges in controlling flats costs. In 2022, the Postal Service Reform Act directed the Commission to conduct a thorough study of Flats costs and report to Congress on the causes of inefficiencies in the collection, sorting, transportation, and delivery of Flats. PSRA, Section 206(a). Congress directed that the Postal Service must then develop and implement a plan "to remedy each inefficiency identified in the study" to the extent practicable. PSRA, Section 206(b)(1).

The Commission is currently considering, in Docket No. SS2022-1, whether the Postal Service's Flats Plan meets statutory requirements and is likely to prove effective if implemented. N/MA has filed several comments in that proceeding[2] noting the need for both stronger metrics by which success can be measured and enforcement measures are necessary to improve accountability.[3] Those comments are equally applicable to the Periodicals flats costs reported in the *ACR* and N/MA respectfully refers the Commission to those comments.

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[1] USPS-FY23-45, CH 6 Data and Tables 2023.PRC.LR.9 Update.xlsx, "Table VI-4-Unit Cost", Column G.

[2] *See Comments of the News/Media Alliance In Response to Order No. 6803*, Docket No. SS2022-1 (Jan. 12, 2024); *Comments of the News/Media Alliance on the Postal Service's Flats Plan*, Docket No. SS2022-1 (Oct. 16, 2023); *Comments of N/MA – The News/Media Alliance*, Docket No. SS2022-1 (January 18, 2023).

[3] N/MA's comments in the Docket SS2022-1 recommended that the Commission modify its rules to allow non-compensatory rate authority for "underwater" classes consisting primarily of flats *only* after fiscal years in which the Postal Service reduces the unit cost of that class through demonstrable progress against an appropriate metric. The Postal Service has not proven that it has done so here.

The *ACR* shows that the problem persists and, if anything, has worsened. The Postal Service reports that its Total Factor Productivity fell by 4.0 percent.[4] Such productivity decreases, coupled with cost increases that the Postal Service has not controlled, ensures that per-unit costs will rise. Controlling costs and improving productivity are essential for the Periodicals class; relying exclusively on revenue increases does not address the underlying problem and punishes mailers for the Postal Service's own failures.

Indeed, in FY 2023, despite two price increases of a compounded 11.9 percent for Periodicals during the year, the cost coverage of the class *fell* from 61.9 percent in FY 2022 to 60.1 percent in FY 2023.[5] The lack of cost control more than offset the impact of higher Periodicals revenue per piece on cost coverage. The Postal Service's strategy of trying to improve cost coverage by raising rates alone simply is not viable in the absence of meaningful and effective cost control.

Costs

The Postal Service reports that the unit costs of Periodicals mail increased in FY 2023 by 11 percent. *See ACR* at 40. Strikingly, despite the loss of *12 percent* of Periodicals volume, *total* Periodicals costs barely decreased in FY 2023 to $1.536 billion from last year's $1.571 billion.[6] The Postal Service's large decline in Total Factor Productivity likely explains much of its inability to capture more cost savings.

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[4] *See* USPS-FY23-17, TFP Materials, TFP Summary Tables (Public), Tab Workload & Input).

[5] *Compare ACR* at 39 *with* Postal Regulatory Commission, Annual Compliance Determination Report Fiscal Year 2022, at 29, Table III-1.

[6] *Compare ACR* at 39 *with* Docket No. ACR2022, PRC-LR-ACR2022-1, Public_FY22CRAReport_UpdtedOrder6459, Tab Cost1.

Outside County Periodicals attributable costs rose by 6.9 cents, or 14 percent. This increase appears to have primarily been driven by a 3.7 cent increase in delivery unit costs and a 2.6 cent increase in mail processing unit costs.[7] This occurred while Outside County volume fell, coincidentally, by 14 percent. Delivery and mail processing costs are labor-related, and that unit cost for these activities rose while volume fell suggests a failure by the Postal Service to reduce its workhours in line with volume declines.[8] Not only did the Postal Service fail to capture the anticipated workhour savings, but its productivity fell as well.

In a likely anomaly, reported per-unit costs for the much smaller Within-County product declined by 3 percent. The Postal Service offers no explanation why Within-County unit costs might have declined. N/MA doubts that the Postal Service improved its productivity for this one product. A more likely explanation is statistical variation within a small volume product.

In 2019, the Commission adopted 39 C.F.R. §3050.50, which requires the Postal Service to include in its annual compliance reports information about cost trends and cost reduction initiatives for postal products consisting of more than 80 percent flats. In this docket, the Postal Service has done so in Library Reference USPS-FY23-45. The Postal Service's responses to this requirement in past years have been disappointing, as it has generally described initiatives implemented in the past year or, in some instances, continuing or beginning in the next. The *ACR* for FY 2023 is no different. In

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[7] USPS-FY23-45, *Rule 3050.50 Paragraph (b) Narratives* at 3.

[8] Changing productivity on mail processing machines contributed as well. See generally Response to Chairman's Information Request No. 2, Questions 33-36 (Jan. 19, 2024).

this docket, the Service briefly discusses “Equipment right-sizing,” “Site-specific flats operating plans,” the discontinuance of the Flats Sequencing System, and the development of “Standard Work Instructions.” USPS-FY23-45, *Rule 3050.50(f) Operational Initiatives Report* at 3. However, as in past years, the Postal Service continues not to publish measurable, accountable metrics for Flats initiatives as required by Commission Rule 3050.50(f)(2).[9]

The Postal Service states that although its operational initiatives “will likely have some effect on cost, service, and pinch point data, it is neither possible to identify with certainty which initiatives contributed to a particular result nor to isolate the effects of each initiative.” USPS-FY23-45, *Rule 3050.50(f) Operational Initiatives Report* at 1-2. That means the Postal Service has again not provided clear, firm metrics against which the success of its various flats-related cost savings initiatives can be evaluated.

Finally, N/MA notes that the Postal Service, as the Commission has directed, has reported on excessive Periodicals costs for years in annual compliance reports. Yet the problem of the Postal Service relying on rate increases, not controlling costs, to improve Periodicals cost coverage continues. While data reporting is useful, holding the Service accountable for controlling costs through a mechanism that has meaningful consequences is necessary to ensure that Periodicals cost coverage improves.[10]

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[9] Rule 3050.50(f)(2) requires the Service to provide an “estimate, with support workpapers, of the impact of each operational change/initiative” related to flat-shaped mail.

[10] Most recently, N/MA stated that the Postal Service should be allowed the additional 2 percent rate authority for non-compensatory products ***only*** if it holds the change in Periodicals unit costs from the prior year to CPI – 1 percent and achieves the 95 percent on-time service performance it has committed to do in the *Delivering for America* plan. *See Comments of the News/Media Alliance In Response to Order No. 6803*, Docket No. SS2022-1, at 6 (Jan. 12, 2024).

Pricing

Periodicals prices increased by a compounded 11.9 percent in FY 2023 alone, and by 21 percent including the July 2022 increase that took effect shortly before the fiscal year began. The *ACR* (at 40) reports that 23 workshare discount passthroughs in Periodicals mail were below the 85 percent of avoided costs threshold set by rule 3030.284(e). This suggests that the Postal Service has not used pricing signals effectively to encourage mailer worksharing in Periodicals mail.

In Outside County, 14 workshare discounts passthrough less than the minimum required cost savings. *ACR* at 40. It merits noting that although the Postal Service, in Docket No. R2024-1, set the Basic Carrier Route discount at 97.4 percent of the FY2022 avoided costs, the increases in postal costs in FY 2023 reduced that passthrough to 79.5 percent. Basic Carrier Route is the largest Outside County product, comprising slightly less than 60 percent of the product. When the largest category is priced inefficiently, it sends inaccurate signals and leads to inefficiency.

Similarly, nine workshare discount passthroughs in Within-County are less than the minimum allowed by Commission regulations. *ACR* at 41. As in the case of Outside County, the Carrier Route category comprises the largest volume in the product, accounting for two-thirds of the total pieces.[11] Yet the discount passes through only 59.5 percent of the avoided costs. *ACR* at 41.

Pricing Periodicals workshare discounts efficiently is an important way to reduce Periodicals costs. Given that 23 discounts within Periodicals are non-compliant, there is

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[11] *See* USPS-FY23-4, Folder Other MD BDs, at Tab Within County FY 2023 (Carrier Route volume of 305,040,275 out of the product total of 451,825,363).

ample opportunity for improved pricing efficiency. The Commission should urge the Postal Service to set the discounts as close as 100 percent as feasible.

Rule 3030.284 will require the Postal Service to increase these 23 non-compliant discounts in the next rate case. The Postal Service states that because Within-County discount percentages are low, bringing them towards 100 percent "is necessarily an incremental process." *ACR* at 42. While incremental adjustments to minimize rate shock are understandable, the Commission should remind the Service that some rate cells may receive price reductions, even in an underwater product, to achieve more efficient pricing so long as the average rate for the product is not reduced. As the Commission stated just last fall, its rule 3030.127(b), which prevents a decrease in prices at the product level for products that do not cover their attributable costs:

> does not, however, set a level of increase (or even require an increase) or otherwise dictate how prices are set for individual rate cells and price categories within a product.

Order No. 6814, Docket No. R2024-1, at 51 (Nov. 22, 2023).

Finally, the ACR includes data on the first year of the saturation mail incentive in Marketing Mail. N/MA continues to urge the Postal Service to consider expanding that incentive to High Density Plus flats as well so that newspapers may also benefit from that program.

Service Performance

The service provided to Periodicals mail, while facially improved by a marginal degree – although as discussed below not comparable to FY 2022 — is unacceptable. The Postal Service reports the following service performance for Periodicals in FY 2023:

	Target	Percent On-Time
Within County	85.75%	86.5%
Outside County	85.75%	86.3%

ACR at 52.

The Postal Service had raised its performance targets for Periodicals from FY 2022, and that the Service reports that it met those targets.[12] At the same time, the targets remain far below the Periodicals class service standards and the target for both products in FY 2024 is only slightly better, at 87.29 percent. That remains far below the 95 percent target promised in the Delivering for America plan.[13] The Postal Service has already inflicted steep rate increases and decreased service standards on Periodicals mailers, yet Periodicals mailers have not seen service performance benefits even close to those in the plan.

When assessing the FY 2023 performance, N/MA asks the Commission to keep several considerations in mind.

First, the report is incomplete. Only *52.83 percent* of total Periodicals were included in measurement, which is less than in FY 2022.[14] Sixty-one percent of Outside County mail was included, and *only 7.28 percent* of Within County.[15] *This means that the service provided to nearly half of all Periodicals mail, and to essentially all Within County mail, is not known*. And the percentage in measurement fell below 50 percent in

12 *Letter from Mikhail Raykher to Hon. Erica Barker* (Nov. 29, 2023).

13 United States Postal Service, *Delivering for America*, at 34.

14 *See* USPS-FY23-29, Measured-Unmeasured Tables, AttachB_Total MeasuredUn-Measured, Tab FY23, cells CX10 & CY10.

15 *Id.*, cells DF10 & CZ10.

the fourth quarter of FY 2023,[16] a fact that casts doubt on the reliability of the claimed improvement in the second half of the year. That is not to say that the reported numbers are inaccurate; but nor is there any sound basis on which to extrapolate the performance received by pieces in measurement to those that were not.

Second, the Commission should remember that on January 29, 2023, the Postal Service implemented the change in the Critical Entry Times for Periodicals reviewed in Docket No. N2022-2, so the changes were in effect for most of the year. In addition to forcing Periodicals mailers to change processes and incur extra costs to meet the earlier entry time, the Commission recognized from the start that the changes "will result in an additional service day for affected Periodicals mailers." *Advisory Opinion on Changes to the Critical Entry Times for Certain Categories of Periodicals*, Docket No. N2022-2, at 23 (Nov. 30, 2022).

The CET change complicates evaluation of the performance reported in the *ACR* because the new way of counting Day 1 inherent in the changes in CET has the effect of making reported service for the affected mail *appear* to be one day better than it really is. Accordingly, the report on service in FY 2023 is not comparable to the report for FY 2022 because the entry times applicable to many publications were different.

Therefore, N/MA is unable to determine whether the actual service provided to affected Periodicals improved in FY 2023 compared to FY 2022. Indeed, the Postal

[16] *See Response to Chairman's Information Request No. 2*, Q55, file ChIR No. 2 Q55 – IMb , cell D19 (Jan. 19, 2024).

Service's position is that it is not feasible to tell whether the CET changes affected service performance.[17]

As with cost reduction initiatives, the Postal Service's position is that it is unable to isolate and quantify the impact of any individual service improvement initiative on service performance results.[18] Indeed, it has made no attempt to do so, claiming that the value of such an effort is not worth the trouble.[19] The bottom line is that the Postal Service's unwillingness to do so means that the Commission will be unable to determine whether service quality truly improved. This illustrates the problem with the Commission's efforts to date to encourage improved Postal Service performance in the absence of meaningful sanctions.

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17 *See Response to Chairman's Information Request No. 4*, Q1 (Jan. 24, 2024). Nor does the *Response to ChIR No. 1*, Q16 appear to answer the question—the number of pieces processed during different windows does not, by itself, indicate anything about the timeliness of delivery.

18 *Response to Chairman's Information Request No. 1*, Q11 (Jan. 12, 2024).

19 *Id. See also Response to Chairman's Information Request No. 1*, Q17 (Jan. 19, 2024) (stating that it "cannot isolate the impact of a specific operational adjustment from any number of other factors that may impact service performance") & *Response to Chairman's Information Request No. 4*, Q1 (Jan. 24, 2024).

Conclusion

The News/Media Alliance respectfully submits these comments for the Commission's consideration.

Respectfully submitted,

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