

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

Special Study on Issues Related to
Flats Operations

Docket No. SS2022-1

**COMMENTS OF THE NEWS/MEDIA ALLIANCE
IN RESPONSE TO ORDER NO. 6803**

(January 12, 2024)

The News/Media Alliance (“N/MA”)¹ respectfully submits these comments regarding the Postal Service’s Flats Plan² in response to Commission Order No. 6803.³ In that Order, the Commission found that the Postal Service’s Flats Plan filed on October 6, 2023, lacked “both important details and analytical support needed to evaluate the plan and determine whether it sufficiently and effectively addresses the inefficiencies” that the Commission previously had identified in its Flats Operations Study Report. Order No. 6803, at 5.

After years of the Postal Service’s inability to control the costs it incurs in handling flats, Congress enacted Section 206 to direct the Commission to apply its substantial regulatory authority not only to identify and quantify the Postal Service’s

¹ N/MA is the leading voice for the news and magazine media industries that collectively generate more than \$40 billion in annual revenue. N/MA members mail substantial volumes of Flats, particularly in Periodicals and Marketing Mail, and will be directly affected as the Postal Service implements the plan if approved by the Commission.

² *Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022* (filed Oct. 6, 2023) (“Flats Plan”).

³ Issued Nov. 17, 2023

problems in handling flats, but also to ensure that the Service implements operational reforms to remedy them. N/MA appreciates that the Commission is reviewing the Plan carefully and critically, rather than accepting it as filed. As flats mailers, N/MA members hope that the Commission's questions and continued oversight will result in an improved Plan enabling the Postal Service to control its flats costs and improve service.

Strong and effective action is urgently needed. The Postal Service's recently filed Annual Compliance Report for FY 2023⁴ shows that flats costs remain completely out of control. In Periodicals Mail, the class of most interest to N/MA, average unit costs increased by 11 percent over FY 2022. *FY23 ACR* at 40.⁵ That is *more than 7 percent higher than inflation*. Flats costs in other classes rose by similar amounts. *See id.*, at 20 (reporting per-unit attributable costs for Marketing Mail Carrier Route increased from \$0.306 in FY2022 to \$0.336 in FY23).⁶ Not only did the Postal Service fail to make progress toward controlling flats costs, but it almost certainly had its worst flats cost control performance *ever* in FY 2023.

The Postal Service's poor cost performance resulted in Periodicals cost coverage falling in FY 2023 despite Periodicals rate hikes *totaling 21 percent* from July 2022 to July 2023 and in effect in FY 2023. When the cost coverage of a class falls despite cumulative rate increases of that magnitude, the problem is insufficient cost control, not

⁴ *United States Postal Service FY 2023 Annual Compliance Report*, Docket No. ACR2023 (Dec. 29, 2023) ("FY23 ACR").

⁵ Periodicals volume fell by nearly 12 percent in FY 2023. That volume drop was so severe that *total* Periodicals attributable costs fell by about 2.2 percent despite the Postal Service's inability to manage flats costs.

⁶ *Compare* Public_FY23CRARReport, Tab Cost1 (showing First-Class Mail Flats per-unit attributable costs of \$1,485) *with* Public_FY23CRARReport_UpdatedOrder6459, Tab Cost1 (showing First-Class Mail Flats per-unit attributable costs of \$1.340), which works out to a 10.8 percent year-over-year increase.

revenues. Similarly, FY 2023 Periodicals service performance fell short of the Postal Service's *Delivering For America Plan's* 95 percent on-time commitment despite the recent degradations to Periodicals service standards. *FY23 ACR* at 52. And the Postal Service plans for similarly poor service in FY 2024. See *Letter from Mikhail Raykher to Erica Barker* (Nov. 29, 2023) (presenting Postal Service FY 2024 performance targets, including 87.29 percent for Periodicals).

Unfortunately, the Postal Service's responses to the Commission's questions to date in this docket create doubt as to whether it has a plan that will truly lower flats costs. Particularly troubling is the time it took the Postal Service' to respond to the Chairman's Information Request No. 10, Question 5 (issued Nov. 17, 2023). Question 5 simply asked the Postal Service to provide details on the timing of the implementation of the initiatives described in the Flats plan and of the expected cost savings. The Postal Service's response was due by November 27, but wasn't filed until December 21, 2023.

N/MA hopes Question 5 will improve the Flats Plan by causing the Postal Service to develop firm timelines against which progress can be measured. However, the Commission certainly should not approve the Plan until such information is evaluated carefully and found to be reasonable.

Commission scrutiny so far has shown that other assertions in the Postal Service's plan are misleading and unsupported by credible analysis. For example:

- i. Chairman's Information Request No. 11, Q11 appropriately questioned the Postal Service assertion that its Efficiency Index, which only covers a small portion of flats operations, show that "flats processing productivity is improving."
- ii. Chairman's Information Request No. 10, Q7 also reasonably questioned whether S&DCs will reduce delivery costs. The Postal Service's response only qualitatively indicates its expectation that this will be the case but offers no quantification to support this expectation. And with no quantified

expected savings, there can be less accountability if the qualitative expectation is not realized.

Perhaps most importantly, considering that Congress enacted Section 206 to bring the Postal Service's flats costs under control, the Postal Service has conceded that it "has not yet prepared comprehensive cost savings estimates regarding" the transformation of its network. *See Response to ChIR 10, Question 5.*⁷ As far as N/MA can tell, the Postal Service has yet to provide in this docket a projected timeline of when its initiatives will be in place tied to a timeline of anticipated cost savings from those initiatives. Until comprehensive cost savings estimates are available for the various initiatives, the Commission will lack a necessary tool for monitoring the Postal Service's progress towards achieving its stated goals.

This problem is not new. In its *Annual Compliance Determination for FY 2021* (at 277), the Commission faulted the Postal Service for being "unable to determine how its operational initiatives and/or changes will impact costs and service." Indeed, for years the Postal Service has stated that it cannot determine the effect of any initiative. *E.g., FY2022 ACR, USPS-LR-45 Flats Paragraph, at 1-2* ("it is neither possible to identify with certainty which initiatives contributed to a particular result nor to isolate the effects of each initiative"); *accord Annual Compliance Determination Report Fiscal Year 2022, at 33* (Mar. 29, 2023) ("As the Commission has previously discussed, the Postal Service

⁷ That flats costs rose 11 percent in FY 2023, an amount well above inflation, is highly troubling. To the extent that any of the initiatives described in the proposed Flats Plan have been implemented fully, that cost increase is especially concerning, as it might suggest that the initiatives have not succeeded in reducing costs.

has been unable to quantify the expected impact” of operational initiatives intended to reduce flat-shaped mail costs”).⁸

N/MA is concerned that, thus far, the Flats Plan echoes recent Annual Compliance Reports, which presented lists of various flats initiatives but seldom accompanied them with estimates of cost savings or other metrics by which success could be measured. N/MA urges the Commission to review the record on this docket to see whether metrics by which flats cost savings can be – or for initiatives already implemented – have been measured. The Commission should not accept a Flats Plan that merely lists initiatives and offers some qualitative reason to hope that they may reduce costs. Quantifiable, measurable cost savings goals are essential.

For these reasons, N/MA encourages the Commission to continue asking probing questions of the Postal Service to flesh out the implementation details of the plan’s initiatives and to continue evaluating whether the initiatives will likely have the beneficial impacts claimed by the Postal Service. The Commission should not approve a Flats Plan that continues to omit “both important details and analytical support needed to evaluate the plan.” Instead, it should insist on receiving satisfactory responses that fully flesh out the Plan, including the Postal Service’s plan for what the consequences might be if an initiative is underperforming.

N/MA understands that, at some point, the Commission will find that the Postal Service has fleshed out the Plan sufficiently to receive approval. Approval, however,

⁸ Similarly, in the *FY2022 ACD* (at 117), the Commission stated, in a discussion of service performance issues: “the Postal Service’s inability to quantify the impact of any of its improvement initiatives [is] problematic. For an improvement initiative to be successful, it must be possible to identify its impact and determine whether the initiative had the desired effect.”

will only be the beginning of the process. Continued oversight and a means of enforcement will be necessary. The Commission will need to hold the Postal Service accountable for executing the Plan, meeting the timelines, and realizing the cost savings. The success or failure of the Flats Plan will ultimately depend on its comprehensiveness and the Postal Service's successful implementation of it.

To ensure this occurs, the Commission, as N/MA has stated consistently in prior filings, must hold the Postal Service accountable through an enforcement measure that has meaningful consequences. For Periodicals mail, the Postal Service should only be allowed the additional 2 percent rate authority for non-compensatory products if it holds the change in Periodicals unit costs from the prior year to CPI – 1% and achieves 95% on-time service performance (as it has committed to do). Making availability of the non-compensatory surcharge for Periodicals mail dependent on successfully improving cost control and service not only would provide the Postal Service with a reason to improve its flats performance, but it would also ensure that the underwater problem is addressed in a balanced manner that does not rely solely on rate increases that are extremely harmful to publishers and, in turn, the public, and is not done at the expense of service performance.

N/MA urges the Commission to continue to insist that the Postal Service develop a comprehensive and realistic plan, and to hold it accountable for implementing the Plan effectively.

Respectfully submitted,

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