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

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products (Consolidating Docket Nos. RM2024-4, RM2022-5, RM2022-6, and RM2021-2)	Docket Nos. RM2024-4 RM2022-5 RM2022-6 RM2021-2

REPLY COMMENTS OF THE NEWS/MEDIA ALLIANCE

(September 12, 2024)

I. INTRODUCTION AND SUMMARY

The News/Media Alliance ("N/MA") respectfully submits these reply comments on the Commission's Advance Notice of Proposed Rulemaking.[1] N/MA supports the overwhelming consensus of the mailing industry that the current system for regulating Market Dominant rates is flawed and should be modified. In these reply comments, N/MA will address certain issues pertaining to Periodicals Mail.

In our initial comments, N/MA described the important public service role – repeatedly recognized by Congress – of the Postal Service in enabling magazines and newspapers to reach subscribers both locally and across the nation.[2] N/MA's initial comments also described the grave harm inflicted on publishers by twice yearly rate increases totaling a cumulative 254 percent of inflation coupled with reduced service and unconstrained costs.[3] Periodicals volume has plummeted by 25 percent in the

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1 Order No. 7032 (Apr. 5, 2024), 89 *Fed. Reg*. 25554 (April 11, 2024) ("*ANPRM*").

2 *Comments of the News/Media Alliance*, Docket No. RM2024-4, at 4-5 (July 9, 2024) ("*N/MA Comments*").

3 Many small community newspapers noted their experience with Postal Service indifference to their products, Periodicals pricing, and poor service. *See Comments of Community Newspapers from the*

years that rates have been set under the current system,[4] while per-unit Periodicals costs have risen, service standards have been reduced, and service performance is poor.[5]

As a consequence, N/MA's comments noted that the current system has failed to achieve at least three of the statutory Objectives for Periodicals:

- Objective 1: It has not maximized the incentives to reduce cost and increase efficiency, but rather allowed flats costs to remain essentially uncontrolled without any consequences;

- Objective 2: It has not created predictability and stability in rates, but rather has allowed frequent rate increases that have raised rates by nearly 50 percent in less than 3 years;[6] and

- Objective 3: It has not maintained high quality service standards; instead, the Postal Service has both reduced the published standards and changed the Critical Entry Times, while falling far short of achieving even the reduced standards.

N/MA's initial comments recommended that the Commission modify the current system as follows:[7]

- The non-compensatory surcharge (39 C.F.R. §3030.222) should be repealed. If the Commission chooses to retain it, it should be converted into a performance incentive mechanism conditioned on the Postal Service achieving both 95 percent on-time performance for Periodicals, based upon the service standards in place today, including all business and mail

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National Newspaper Association, Docket No. RM2024-4 (July 9, 2024) (submitting comments from numerous community newspapers). As one example, the *Central Dakota Times* wrote that is "continually frustrated by their lack of caring about the product we are taking to them."

4 Over a five-year period, Periodicals volume has fallen from 4.6 billion pieces in FY 2019 to 2.993 billion pieces last year, or by 35.4 percent. More than half of that reduction (18.4 percent) occurred between FY 2021 – when the current system was adopted – and FY 2023, with a 12 percent decline in volume in FY 2023 alone.

5 *N/MA Comments* at 7 & Figure 2.

6 The retirement authority should sunset as scheduled after completion of its five-year phase-in period, which will likely be completed before this proceeding concludes. If Congress acts to improve the FERS/CSRS system, the Commission should revisit the need for that authority.

7 *N/MA Comments* at 2.

preparation rules, and limiting any increase in Periodicals unit costs to less than the change in CPI minus 1 percent;[8]

- The density authority (39 C.F.R. §3030.162) should be repealed; and
- The Postal Service should be limited to one market-dominant rate adjustment per 12-month period.

II. THE COMMISSION SHOULD REJECT THE PUBLIC REPRESENTATIVE'S PROPOSAL TO INCREASE THE NON-COMPENSATORY SURCHARGE

The Public Representative asserts that for the Periodicals class, "more significant revenue-generating action is necessary, whether it be increasing the amount of supplemental authority, a one-time reset, or a phased-in approach that combines those two concepts."[9] However, this would require abandoning the current obligation of the Postal Service to do its part by controlling its costs and, instead, place the burden of raising the cost coverage of Periodicals entirely on publishers who are already struggling.

Periodicals rates have already increased by enormous amounts in the three years since the current system took effect. These increases have been more than double the rate of inflation and significantly higher than what we believe the Commission anticipated in Order No. 5763. While inflation has been high, the above-inflation increases have been driven by the current non-compensatory authority (which the Postal Service has fully used at every opportunity) and by the density authority

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[8] The Public Representative agrees that "[f]or any substantial price increases to be palatable to users of the mail, they must be paired with substantial increases in accountability for cost control and service performance. Public Representative Comments at 38 (July 9, 2024(("*PR Comments*"). Although the Public Representative correctly notes the need for improved accountability, he errs in suggesting that the rate increase should occur before greater accountability is applied, rather than made conditional on satisfying clear metrics for improvement.

[9] *Public Representative Comments*, Docket No. RM2024-4, at 37 (July 9, 2024) ("*PR Comments*").

(which has proven to be much higher than expected). Indeed, the size of the rate increases under the current system and concerns from stakeholders are a major reason that the Commission accelerated its review of the current system.

Despite the magnitude of the Periodicals rate increases since 2021, the cost coverage of the class is lower than in FY 2019, before the current system took effect. *See N/MA Comments*, Figure 2. Periodicals' cost coverage even declined in FY 2023 compared to FY 2022, again demonstrating that enormous rate increases will not raise cost coverage meaningfully if costs remain uncontrolled by the Postal Service. *Id*.

The Public Representative acknowledges that the average unit attributable cost for Outside County Periodicals (by far the largest product in the Periodicals class) "continues to increase." *PR Comments* at 37. N/MA's initial comments noted that on a per-unit basis, Periodicals nominal costs *rose* 6.7 percent from $0.481 in FY 2021 to $0.513 in FY 2023. The per-unit cost increase in FY 2023 alone was 11.1 percent.[10] In fact, except for FY 2022, in which the Postal Service stopped accruing and attributing retiree health benefit normal costs (which reduced unit costs by an accounting adjustment rather than operationally), unit costs for Periodicals have increased on a nominal basis by at least 6 percent every year since FY 2019. *See N/MA Comments* at 8 & Figure 1.

The Public Representative acknowledges that *real* unit Market Dominant attributable costs rose as well in FY 2023 and have "climbed back to almost their FY 2016 level." *PR Comments* at 43. However, the Public Representative states that unit

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[10] Reported unit costs for FY 2022 were lower than in FY 2021 due to the exclusion, for the first time, of retiree health benefit normal costs from accrued and attributable costs. Had they been included, the reported total and unit costs for Periodicals would both have been larger.

Market Dominant attributable costs were lower in FY 2023 than in FY 2020, suggesting that the Postal Service has reduced unit costs in recent years. *Id*., at 42, Figure V-1. That compares apples to oranges. The FY 2022 and FY 2023 unit attributable costs did not include retiree health benefit normal costs, which were included in previous years.

Looking only at Periodicals costs, adjusted for the exclusion of RHB normal costs and inflation, the *real* unit cost of Periodicals increased from FY 2020 to FY 2023:[11]

Periodicals Inflation-Adjusted Unit Costs Excluding RHB Normal Costs (Expressed in FY 2023 Dollars)

FY 2020 Unit Cost[12]	[1]	$0.498
FY 2023 Unit Cost	[2]	$0.513
Percent Increase	[3]	3.1%

[1] See footnote
[2] Docket No. ACR2023, USPS-FY23-1, Public_FY23CRAReport.xlsx, "Cost1", cell F38
[3] = [2] / [1] – 1

In other words, contrary to the Public Representative, *real* Periodicals Mail unit costs increased, not decreased, by 3.1 percent from FY 2020 to FY 2023.

The Commission adopted the non-compensatory surcharge with the intent to "balance the need for mailers to pay a more reasonable rate with the need for the Postal Service to achieve cost reductions and improvements in operational efficiency." Order No. 5763 at 190.[13] But the Postal Service is not meeting the Commission's expectation

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11 This calculation differs from that in Figure 2 of the N/MA Comments because here, the unit costs are adjusted (1) for inflation and (2) by the exclusion of retiree health benefit normal costs.

12 FY 2020 Periodicals attributable cost (USPS-FY20-1, Public_FY20CRAReport.Rev.2.22.21.xlsx, "Cost1", cell F38) excluding Periodicals current year retiree health benefits costs (USPS-FY20-43, IC2020Public.NewAttribCRpt.xlsx, "CS18", cell AC28) divided by Periodicals volume (USPS-FY20-1, Public_FY20CRAReport.Rev.2.22.21.xlsx, "Volume1", cell D38) and inflated to FY 2023 dollars using U.S. Bureau of Labor Statistics Series ID: CUUR0000SA0.

13 Experience has also demonstrated that the non-compensatory surcharge has failed to "appropriately balance[ing] the goal of improving cost coverage with maintaining stability and predictability in rates." Order No. 5763 at 195.

that it better control Periodicals costs, including improving its longstanding difficulties with the costs of flats. This is not what the Commission envisioned when it adopted the non-compensatory surcharge.

The necessary and correct approach to improving Periodicals cost coverage is what N/MA proposed in its initial comments: making the non-compensatory surcharge contingent on meeting cost control and service performance targets. This will promote progress toward improved cost coverage both in a balanced way and in one that preserves service performance.

III. CONCLUSION

The Postal Service remains a public service with a mission to deliver news and information throughout the nation. Essential to fulfilling that responsibility is improved cost control and improved service performance, as required by Objectives 1 and 3. The Commission should ensure that the system for regulating Periodicals rates promotes this duty and holds the Postal Service accountable for achieving measurable improvements in both.

Experience under the current system demonstrates that granting the Postal Service more rate authority without a means of holding it accountable for controlling costs and improving service is hurting Periodicals publishers, subscribers, and the public. The Commission should rescind the non-compensatory and density authorities and limit the Postal Service to one market-dominant increase in a one-year period. If the Commission retains the non-compensatory authority, it should be conditioned on the Postal Service achieving the clear, objective, and measurable metrics governing cost control and service discussed in our initial comments.

For the foregoing reasons, the News/Media Alliance urges the Commission to modify the system for regulating the rates of Periodicals mail and other market-dominant products consistent with these comments.

Respectfully submitted,

N/MA – The News/Media Alliance

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