

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

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

**SECOND RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION REQUESTS FOR ADDITIONAL INFORMATION
IN THE FY 2016 ANNUAL COMPLIANCE DETERMINATION**

(June 26, 2017)

In its Fiscal Year 2016 Annual Compliance Determination, issued on March 28, 2017, the Postal Regulatory Commission requested additional information from the Postal Service regarding several matters within ninety days. The Postal Service's responses to those requests follow.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno
Chief Counsel, Global Business & Service
Development

Eric P. Koetting
Valerie J. Pelton
Jeffrey A. Rackow

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
June 26, 2017

POSTAL SERVICE RESPONSES TO ACD REQUESTS

1. PHI NSA [ACD Page 74]

The Postal Service shall report on its forecast for the remainder of the PHI NSA within 90 days of the issuance of this ACD. The report shall include an updated estimate of PHI volume and any amendments to the contract.

RESPONSE:

The Excel workbook, Q.1.PHI.Spreadsheet.xlsx, electronically attached to this response, provides the requested financial forecast for the remainder of the PHI Acquisitions, Inc. (PHI) Negotiated Service Agreement (NSA), including an updated estimate of projected PHI volume. In addition to presenting a financial forecast that applies a product-wide elasticity to the Commission's preferred methodology, the attached workbook also includes a financial forecast that applies a mailer-specific elasticity to the Commission's preferred methodology. The structure of the Excel spreadsheet is explained in a textual attachment following this response.

The customer-specific elasticity employed in the second financial forecast (-1.41) is an updated version of the adjustment factor (-1.4) incorporated into Section III.D and III.F of the PHI NSA. The Commission approved the original adjustment factor in Order Nos. 2097 and 2346.¹ Citing the Postal Service's responses to CHIR No. 1, Questions 10 and 11, the Commission described the adjustment factor as being "based on the behavioral characteristics of PHI's internal models and business practices, as well as the methodology used by PHI to plan its mailings."² The customer-specific elasticity used in the second financial forecast reflects PHI's updated behavioral characteristics. As demonstrated in the attached Excel workbook, the five-year value attributable to the PHI NSA using the Commission preferred methodology is significantly improved when the customer-specific elasticity is applied. Given the importance of keeping catalogs in the mailstream, the desire to maintain its positive business relationship with PHI, and the overall value when the customer-specific elasticity is used, the Postal Service

¹ Order No. 2097, Order Adding PHI Acquisitions, Inc. Negotiated Service Agreement to the Market Dominant Product List, PRC Docket Nos. MC2014-21 & R2014-6, at 29-30, Fn. 37 (June 19, 2014) [hereinafter Order No. 2097]; Order No. 2346, Order Concerning Amendment to PHI Acquisitions, Inc. Negotiated Service Agreement, PRC Docket Nos. MC2014-21 & R2014-6, at 1-2 (Feb. 4, 2015).

² Order No. 2097, *supra* note 1, at Fn. 37.

POSTAL SERVICE RESPONSES TO ACD REQUESTS

believes that the PHI NSA is worth maintaining.

The Postal Service is fully aware of its responsibility for negotiating and overseeing NSAs, and ensuring that any Market Dominant NSA it enters into continues to improve the net financial position of the Postal Service. See 39 U.S.C. § 3622(c)(10)(A). While at this point in time no amendments have been negotiated with PHI, discussions between the parties are continuous and ongoing.

PHI RESPONSE ATTACHMENT

This attachment describes the spreadsheet provided electronically in response to the ACD request regarding the volume forecast of the PHI Acquisition, Inc. (PHI) Negotiated Service Agreement (NSA) through Year 5 of the NSA. The spreadsheet also includes the financial impact of estimated volumes and rebates over the remaining term of the NSA.

A. Overview

For purposes of providing the PHI NSA volume forecast through the end of the NSA, the Excel file labeled **PHI NSA Performance_ACD Response.xlsx** contains annual volume, expected rebates paid, unit revenue, unit costs, and Net Value expectations of the PHI NSA through Year 5.

B. Volume & Price Assumptions

The tab titled "Volume & Price Assumptions" contains inputs for FSS Migration to Carrier Route price category & actual PHI revenue and volume to calculate post FSS pricing.

C. Unit Cost Inflation

There is one tab for the unit costs, "Unit Cost Inflation", which provides FY2016 unit costs which were filed in Docket No. ACR2016. These unit costs by price category are then inflated through Year 5 of the NSA.

D. Inflation & CPI

The tab titled "Inflation & CPI" uses PHI NSA volumes processed in FSS zones and Non-FSS zones by price category. The separate revenue per piece and cost per piece by price category are then weighted by volume for total weighted average revenue and cost per piece of total NSA eligible mail volume.

E. Impact Forecast

The tab, "Impact Forecast" provides the details to determine the volume and financial impact through the end of the 5 year contract period. The tab contains volume thresholds and expected actual volumes which are used to calculate expected rebates earned. Furthermore, the expected Net Value of the NSA for each of the remaining years of the agreement is determined by two versions:

PHI RESPONSE ATTACHMENT

1. Commission's Methodology (using prevailing product-level elasticity to estimate Before-Rates volumes)
2. Commission's Methodology (using PHI NSA eligible mail elasticity to estimate Before-Rates volumes)

These versions respectively derive total Net Value of the 5 year agreement at:

1. Commission's Methodology using prevailing product-level elasticity:
- \$ 2,695,645
2. Commission's Methodology using PHI NSA eligible mail elasticity: \$189,681

F. Commission's Methodology

The tab labeled, "Commission's Methodology" contains the calculations of Postal Regulatory Commission's test of Before-Rates Volume and estimate of Change in Net Benefit of the NSA for each year of the NSA.

POSTAL SERVICE RESPONSES TO ACD REQUESTS

2. **Non-NSA Portion of Parcel Return Service [ACD Page 80]**

The Commission directs the Postal Service to report within 90 days on the results of its investigation into the Parcel Return Service cost estimates in FY 2016. The Postal Service must discuss the corrective actions that it has taken and plans to take to improve cost coverage.

RESPONSE:

The Postal Service has determined that there were some packages erroneously reported as Parcel Return Service (PRS) in FY 2016, which should have been reported as Parcel Select Nonpresort packages. The mis-assignment of these packages contributed to the low cost coverage for PRS in FY 2016. The remainder of the non-NSA portion of PRS Service packages in FY 2016 were subsequently determined to have been shipped by customers that had a PRS NSA with the Postal Service. It is the Postal Service's position that these packages should be included under the NSAs of the customers who mailed them. The Postal Service is examining each PRS NSA to determine if any amendments are necessary to ensure that all PRS packages from each customer are reported as NSA volume. Any necessary amendments will be filed with the Commission in the near future. Finally, the Postal Service is examining its cost model for PRS, and will soon make a determination as to whether any methodological changes are necessary. With these actions, the Postal Service expects that the non-NSA portion of PRS in FY 2017 will be virtually (if not literally) eliminated, such that the NSA portion that previously was one of two categories of PRS will instead become the entirety of PRS mail, and PRS as a whole will cover its costs in FY 2017. (To the extent that page 80 of the ACD perhaps might be read to suggest that page 85 of the ACR indicated that the cost coverage for Parcel Return Service as a whole dropped below 100 percent in FY 2016, that impression would be incorrect. The statement on page 85 of the ACR was limited to the non-NSA portion and does not apply to Parcel Return Service overall.)

POSTAL SERVICE RESPONSES TO ACD REQUESTS

3. First-Class Mail Single-Piece Letters/Postcards Service Performance [ACD Pages 133-135]

The Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2017, Quarter 1 and Quarter 2 within 90 days of the issuance of this report. The Commission directs the Postal Service to include the following information for FY 2017, Quarter 3, Quarter 4, and annualized for the fiscal year, in the FY 2017 ACR:

1. *The 24-hour processing clock metrics:*
 - a. *The performance disaggregated by area level and district level for each national goal for each quarter and annually for FY 2017.*
 - b. *The 10 facilities with the most failures in meeting each national goal for each of the 24-hour processing clock metrics during FY 2017. For each facility identified, please state the number of times that the facility failed to meet that national goal during FY 2017, and the corresponding number of times that the facility failed to meet that national goal during FY 2016. See January 10, 2017 Responses to CHIR No. 1, question 5.c.*
2. *Collections/First Mile:*
 - a. *The volumes and percentages of First-Class Mail Single-Piece Letters/Postcards that received a zero bundle review during FY 2017, disaggregated by service standard for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 1.b. Please also provide this information disaggregated by district and service standard. See id., question 1.c.*
 - b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays, disaggregated by district and service standard, for each quarter and annually for FY 2017. See id., question 4.*
3. *Origin Processing:*
 - a. *All facilities that appeared on the Bottom Ten report for four or more consecutive weeks during FY 2017. For each identified facility, please state the corresponding district, all dates the facility appeared on the Bottom Ten report, the number of total piece failures at that facility for each date, and the total volume of mailpieces at that facility for each date. See February 21, 2017 Response to CHIR No. 1, question 6.d.*
 - b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 7.*
 - c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by service*

POSTAL SERVICE RESPONSES TO ACD REQUESTS

standard, for each quarter and annually for FY 2017. See Responses to CHIR No. 13, question 1.

4. *Transit:*

- a. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 8.*
- b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See id., question 15.*
- c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See February 17, 2017 Responses to CHIR No. 16, question 2.*
- d. *The report of total national network delays comparing the volume of First-Class Mail delayed weekly from October 1, 2016, through September 30, 2017, to the volume of First-Class Mail delayed at the same time during the previous year in an Excel file format. Please also provide this information disaggregated by area. See Responses to CHIR No. 13, question 3.*
- e. *The number of critically late highway trips (any HCR that is late more than 4 hours) during FY 2017, disaggregated by fiscal quarter and district, for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 13.*
- f. *The TTMS national aggregate estimates of Letters/Postcards that have missed the service standard by the last processing scan within the transit phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district.*

5. *Destination Processing:*

- a. *Managed Mail Program (MMP) by 15:00 Report, disaggregated by district and service standard, for each quarter and annually for FY 2017.*
- b. *The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that have already missed the service standard by the LPO within the destination processing phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district. See March 3, 2017 Response to CHIR No. 1, question 18.*

POSTAL SERVICE RESPONSES TO ACD REQUESTS

6. *Delivery/Last Mile*
 - a. *The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported, disaggregated by service standard, for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 19. Please also provide this information disaggregated by district.*
 - b. *The volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-Day service standards, disaggregated by service standard, for each quarter and annually for FY 2017. See id., question 21.*

The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in the responses to CHIRs filed in Docket Nos. ACR2015 and ACR2016 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response.

RESPONSE:

With one exception, responsive data are provided as part of the attached public Excel file that accompanies the filing of this Response with the file name ACD.FCM.FY17Q1Q2.pub.xlsx. The one exception is the ten facility material regarding the 24-hour processing clock metrics (item 1.b). Like the predecessor material referenced in the question (provided under seal on January 10, 2017 in response to ChIR No. 1, question 5.c, in this docket), the current responsive material to that item is also filed under seal, in this instance as part of USPS-FY16-NP46 with the file name ACD.FCM.FY17Q1Q2.Q1b.NONPUBLIC.xlsx.

In May, the Postal Service filed a motion for clarification of the request in Item 3.a. In Order No. 3918, the Commission ruled on the motion and confirmed the scope of this request 3.a as follows: “The Commission confirms that the data request contained in question 3.a. of Chapter 5 of the FY 2016 ACD seeks information related to

POSTAL SERVICE RESPONSES TO ACD REQUESTS

First-Class Mail Single-Piece Letters/Postcards.”³ Also, as referenced above within the request, this Item 3.a requests the same type of data as was provided on February 21, 2017 in response to ChIR No. 1, question 6.d, in this docket. As was explained in the response to that question 6.d in the response filed on February 21, 2017, these data are available only at the District level and not at the facility level.

Also, please note that with respect to certain Transit data (Item 4.f), the ACD requested that the Postal Service indicate the TTMS national aggregate estimates of Letters/Postcards that missed service standard by the last processing scan within the transit phase. However, data are not collected in a manner that specifically distinguishes transit phase failures. Root cause data from TTMS are categorized as either origin or destination failures. Since there is no “last processing scan within the transit phase,” the total root cause failures at origin have been provided. These data are provided as part of the attached public Excel file indicated above.

Further, with respect to certain Destination Processing data (Item 5.a), the Managed Mail Program (MMP) by 15:00 Report is provided by district and quarter as requested; however, data are not collected in a manner that specifically distinguishes service standard. The district and quarterly data are provided as part of the attached public Excel file indicated above.

³ Order No. 3918 at 2, Order on Motion for Clarification, Docket No. ACR2016, May 26, 2017.