

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

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 32

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 32, issued on August 15, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. [Chairman's Information Request No. 31 requested a timeline for completion of the Parcel Return Service Contract 10 package study and analysis of the study's data.¹ The Postal Service responded that it estimated that the study and the analysis should be completed by the end of July. Responses to CHIR No. 31, question 3; see *id.*, question 1.] Please provide the status of the study and the analysis of the study's data.

RESPONSE:

The Postal Service has obtained samples of the customer's packages and found that the package characteristics (average weight and revenue) substantially confirmed those used in the PRS Full Network cost model, which formed the basis for the reported cost coverage in FY 2016 ACR.

¹ Chairman's Information Request No. 31, June 19, 2017, question 3.

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2. Please confirm that the analysis supports the Postal Service's expectation that the contract will cover its costs for FY 2017. Responses to CHIR No. 31, question 2. If not confirmed, please explain and discuss the corrective actions the Postal Service plans to take.

RESPONSE:

Not confirmed. Based on the Q3 YTD customer volume profile, cost coverage for this contract calculated using the original PRS Full Network model continues to be under 100 percent. Note, however, that in the absence of any model directly providing an estimate of the PRS Full Network transportation costs per cubic foot, the original cost model used the PS Ground transportation cost per cubic feet as the best available proxy. Still using that proxy, when the volume variabilities recently approved in RM2016-5, Proposal Four, are included in the model, the cost coverage for FY17 Q3 YTD improves materially, but is still under 100 percent.

However, on July 28, 2017, the Postal Service filed Proposal Six, which includes a revised model for Parcel Select and Parcel Return Service costs which:

- a) Incorporated changes in the subproducts included in Parcel Select and PRS mail classes; and
- b) Incorporated changes in the parameters affecting local, intermediate and long-distance transportation costs.

In particular, the proposal introduced a PRS Full Network specific cost model, which obviates the need to use the proxy. The Postal Service believes that the costs from Proposal Six will be more appropriate, and accurately reflect actual operating parameters for this class of contracts. If the Commission agrees and approves Proposal Six and the use of the new cost model, the Postal Service would be able to use the

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direct estimate of PRS Full Network transportation costs from the new model instead of the PS Ground transportation cost proxy previously used for evaluating PRS Full Network contracts. In that event, using the new direct estimate in place of the proxy, cost coverages for PRS Full Network contracts would improve. Specifically, the cost coverage for the instant contract (PRS 10) would improve sufficiently to bring the contract into compliance. Thus, although still contingent upon approval of Proposal Six (or at least some portion of it including a direct cost estimate of a similar magnitude), these circumstances create the reasonable expectation that the availability of improved estimates will show PRS 10 to fully cover its actual costs in FY 2017.