

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Parcel Select Contract 20 (MC2017-78)
Negotiated Service Agreement

Docket No. CP2017-105

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE NOTICE OF CHANGE IN PRICES
PURSUANT TO AMENDMENT TO PARCEL SELECT CONTRACT 20

(May 21, 2018)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to the Commission Notice Initiating Docket(s).¹ In that Notice, the Commission reopens the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of amendment to Parcel Select Contract 20.²

II. BACKGROUND

The Commission approved the original Parcel Select Contract 20 in Order No. 3759, dated January 26, 2017.³ Prior to the current amendment, the Postal Service had

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, May 14, 2018 (Notice).

² USPS Notice of Change in Prices Pursuant to Amendment to Parcel Select Contract 20, Filed Under Seal, May 11, 2018 (Amendment).

³ Order Adding Parcel Select Contract 20 to the Competitive Product List, January 26, 2017 (Order No. 3759). See *also* Request of the United States Postal Service to Add Parcel Select Contract 20 to

filled and the Commission had approved two other amendments to Parcel Select Contract 20.⁴ The current amendment changes the contract's prices "as contemplated by the contract's terms." Amendment at 1. The Postal Service filed (under seal) the unredacted Amendment and the supporting financial analysis. The expiration date of Parcel Select Contract 20 has not changed since the previous amendment, and the contract is set to expire on January 29, 2021, subject to early termination provisions and other terms and conditions. Order No. 4108 at 3.

The Amendment is scheduled to take effect two business days after the day the Commission completes its review of the filing. Amendment, Attachment A at 1.

III. COMMENTS

Requirements of 39 U.S.C. § 3633. Pursuant to section 3633(a), prices for competitive products must cover each product's attributable costs, not result in subsidization of competitive products by market dominant products, and ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service. To determine whether Parcel Select Contract 20 satisfies the requirements of section 3633(a), the Public Representative reviewed the Amendment and the supporting financial analysis filed under seal. In addition, the Public Representative reviewed all the documentation previously filed by the Postal Service in the current docket, as well as the financial documentation related to Parcel Select Contract 20 and filed by the Postal Service in the library reference supporting the FY 2017 Annual Compliance Report.⁵

In its FY 2017 Annual Compliance Determination (ACD) Report, the Commission found that Parcel Select Contract 20 was not out of compliance with the requirements of

Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, January 13, 2017 (Request).

⁴ Order Approving Amendment to a Parcel Select Negotiated Service Agreement, March 21, 2017 (Order No. 3820); Order Approving Amendment to Parcel Select Negotiated Service Agreement, September 21, 2017 (Order No. 4108). See also Notice of United States Postal Service of Amendment to Parcel Select Contract 20, with Portions Filed Under Seal, March 20, 2017; Notice of United States Postal Service of Amendment to Parcel Select Contract 20, with Portions Filed Under Seal, September 19, 2017.

⁵ Docket No. ACR 2017, Library Reference USPS-FY17-NP27.

U.S.C. § 3633(a)(2).⁶ The financial spreadsheets filed with the Amendment indicate that with the new prices in effect, Parcel Select Contract 20 should generate sufficient revenue to cover costs and, therefore, continue to comply with 39 U.S.C. § 3633(a).

The Public Representative, however, has certain concerns regarding the cost coverage for Parcel Select Contract 20 under the amended prices. As financial analysis shows, there are two major rate categories for Parcel Select Contract 20.⁷ The second major rate category includes two sub-categories, and one of them provides low cost coverage. *Id.*, cell K7. The other sub-category, as well as the first major rate category, do provide quite substantial cost coverage, which results in a contract, as a whole, covering its volume variable costs. *Id.*, cells K5, K6, K9 and K13. However, the rate sub-category with low cost coverage applies to a significant portion of the contract's volume. *Id.* cell H7. If the mail volume mix by rate category changes, the generated revenues might be insufficient to cover costs for Parcel Select Contract 20.⁸ This would put the contract out of compliance with the requirements of 39 U.S.C. § 3633(a). The Commission will have an opportunity to review the revenue, volume and cost data for the amended Parcel Select Contract 20 in the future ACD Reports.

⁶ Docket No. ACR 2017, Annual Compliance Determination Report, March 29, 2018 at 84-85 (FY 2017 ACD).

⁷ See file PS20_Ammend3_Public.xlsx, sheet "Summary," column C.

⁸ The Public Representative also observes that in its financial model, the Postal Service estimates cost coverage based on volume-variable costs, and not attributable costs, as required by statute. U.S.C. § 3633(a)(2). This is most likely because the Commission has accepted the methodology for calculating attributable cost for domestic NSAs only provisionally. See FY 2017 ACD at 11. However, it will cause a concern if any change in volume mix by rate category results in a cost coverage just slightly above 100 percent.

IV. CONCLUSION

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

Lyudmila Y. Bzhilyanskaya
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6849
lyudmila.bzhilyanskaya@prc.gov