

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Competitive Product Prices  
Priority Mail Contract 41 (MC2012-39)  
Negotiated Service Agreement

Docket No. CP2012-47

PUBLIC REPRESENTATIVE COMMENTS ON  
POSTAL SERVICE NOTICE OF AMENDMENT  
TO PRIORITY MAIL CONTRACT 41

(January 14, 2016)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to Order Nos. 2971 and 3026.<sup>1</sup>

In Order No. 2971, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of a change in the terms of Priority Mail Contract 41.<sup>2</sup> Attachment A to the Notice consists of a redacted version of the Amendment to Priority Mail Contract 41.

Subsequently, the Commission issued an information request and set January 12, 2016 as the date for the Postal Service's responses.<sup>3</sup> On January 13, 2016, the Public Representative filed a motion requesting a brief extension of the comment filing

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<sup>1</sup> Order No. 2971, Notice and Order Concerning Amendment to a Priority Mail Negotiated Service Agreement, January 4, 2016 (Order No. 2917); and Order Granting Motion for Extension of Comment Deadline, January 13, 2016 (Order No. 3026).

<sup>2</sup> Notice of United States Postal Service of Change of Prices Pursuant to Amendment to Priority Mail Contract 41, December 31, 2015 (Notice).

<sup>3</sup> Chairman's Information Request No. 1, January 7, 2016 (CHIR No. 1). See *a/so* Responses of the United States Postal Service to Chairman's Information Request No. 1, January 12, 2016, at 2 (Responses).

deadline to provide an adequate opportunity to review the Responses.<sup>4</sup> In Order No. 3026, the Commission extended the comment filing date to January 15, 2016. Order No. 3026 at 2.

## II. BACKGROUND

In Order No. 1445, the Commission approved the Postal Service's request to add a new product identified as Priority Mail Contract 41 to the Competitive product list.<sup>5</sup> The Amendment replaces the prices and volume commitment for Customized Priority Mail Open & Distribute in Section I.E of existing Contract 41 with new prices. Notice, Attachment A at 1.

The Postal Service filed supporting financial documentation and financial certification as required by 39 C.F.R. § 3015.5. *Id.*, Attachment B. It also filed a redacted version of the supporting financial documentation as a separate Excel file. The Postal Service states that the Amendment will take effect one business day following the day on which Commission completes its regulatory review of this filing. *Id.*

## III. INFORMATION REQUEST

Chairman's Information Request No. 1 questions 1a and 1b ask the Postal Service to confirm and explain why the cost per mile input in the Contract 41 Excel file is based on an average from FY 2015 Quarters 2, 3, and 4 rather than the entirety of FY 2015. CHIR NO. 1 at 1. In its Responses, the Postal Service confirmed that the cost per mile input in the Contract 41 Excel file is based on an average from FY2015 Quarters 2, 3, and 4 rather than the entire FY2015. The Postal Service further states: "Data for cost per mile for Quarter 1 of each year can be unreliable because of the holiday shipping season." Responses at 1.

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<sup>4</sup> Public Representative Motion for Extension of Comment Deadline, January 13, 2016.

<sup>5</sup> Docket Nos. MC2012-39/CP2012-47, Order Adding Priority Mail Contract 41 to the Competitive Product List, August 20, 2012 (Order No. 1445).

#### IV. COMMENTS

The Public Representative has reviewed Priority Mail Contract 41, the Postal Service's Amendment and the Responses. Based upon that review, the Public Representative recommends Commission approval of the Amendment to Contract 41. The Public Representative concludes that the Amendment will not materially affect the cost coverage of Contract 41, especially in terms of falling below 100 percent. Based on the financial workpapers filed by the Postal Service, it appears that the contract is expected to generate sufficient revenues to cover costs and thereby satisfy the requirements of 39 U.S.C. § 3633(a).

However, the Public Representative notes that the Postal Service's responses to CHIR No. 1 questions 1a and 1b raise some concern about the appropriate cost input used for Contract 41 and functionally equivalent contracts. The Postal Service states that "data for cost per mile for Quarter 1 of each year can be unreliable because of the holiday shipping season." *Id.* It explains, as an example, that "additional ad hoc transportation is purchased during Quarter 1 to accommodate the additional holiday volume, but the miles for this ad hoc transportation are not recorded reliably, which can skew the cost per mile data for Quarter 1." *Id.*

The Public Representative finds that the lack of detail in the Postal Service's explanation raises concern for the costing of Contract 41. First, if the data for Inter-SCF cost per mile for Quarter 1 of each year can be unreliable because of the holiday shipping season, this suggests that there could be other cost inputs for Quarter 1 of each year that can be unreliable as well. However, the Postal Service states that "no additional inputs rely on partial FY 2015 data." *Id.* Second, the Postal Service notes that the "miles for this ad hoc transportation are not recorded reliably" but offers no explanation for the unreliable recording of data. If the Postal Service does not rely on partial FY2015 data for all other cost inputs, this suggests that the holiday shipping season does not affect the reliability of data recording for all other cost inputs. The Postal Service should investigate and disclose why unreliable recording of data during the holiday shipping season is exclusive to Inter-SCF cost per mile.

The Public Representative is concerned that relying on partial FY2015 data for calculating average Inter-SCF cost per mile may materially affect the cost coverage of Contract 41. However, this concern is mitigated by the fact that the undersigned's analysis of Contract 41 shows that it is expected to generate sufficient revenues to cover costs when the average Inter-SCF cost per mile input is based on the entire FY2015 data. Furthermore, the Postal Service has filed revenue and cost data for Contract 41 in the FY2015 Annual Compliance Report. This data will permit the Commission to review the cost inputs and the financial results for Contract 41 in the FY2015 Annual Compliance Determination (ACD) report for compliance with 39 U.S.C. § 3633(a).

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

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Nina Yeh  
Public Representative

901 New York Ave. NW  
Washington, DC 20268-0001  
202-789-6811  
Nina.yeh@prc.gov