

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

Competitive Products Price Changes
Re Rates of General Applicability

Docket No. CP2008-3

REVIEW OF NOTICE CONCERNING
CHANGE IN RATES OF GENERAL APPLICABILITY
FOR ALL COMPETITIVE PRODUCTS

(Issued April 10, 2008)

I. SUMMARY

This is the first review of Postal Service price adjustments for competitive products. On March 12, 2008, the Postal Service filed a notice of the Governors' Decision No. 08-3 which announced planned changes in rates of general applicability for all competitive products.¹ The planned adjustments are scheduled to take effect on May 12, 2008.

Based on the Notice and supporting material, public comments, and supplemental information submitted by the Postal Service, the Commission finds no reason to conclude that the planned price adjustments for competitive products are not in compliance with applicable statutory provisions.

Transparency and accountability are central objectives of the Postal Accountability and Enhancement Act (PAEA). To achieve these objectives, the Postal Service should strive to provide more complete and unambiguous information in subsequent competitive products price change filings. This is particularly important given the relatively short time frames in which the Commission is required to act. The PAEA contemplates prompt review without the need for successive rounds of

¹ See Notice of the United States Postal Service of Governors' Decision No. 08-3, March 12, 2008 (Notice).

information requests and responses to clarify the changes that the Service intends to implement. In several areas, the Commission's review in this case has been hampered by the limited explanations and information presented in the initial Postal Service filing.

For example, the information originally provided by the Postal Service implies that the average daily Express Mail volume thresholds used to determine incentive rebates to commercial mailers are calculated quarterly using calendar days. Subsequent information disclosed, however, that the calculation is based on workdays (*i.e.* calendar days minus Saturdays, Sundays, and holidays). This difference is important because it affects the level of rebates to commercial mailers and thus the financial impact of the planned price changes. Similar ambiguities in the description of the planned discounts for Parcel Select also hindered the Commission's analysis.

The Commission anticipates that future notices of competitive product price adjustments will include better descriptions of planned changes, including clear and complete explanations of the manner in which incentives operate and rebates are "paid."

A second deficiency concerns certain cost data provided in support of the planned changes for certain products. The Commission expects future competitive product price adjustments to contain a more detailed and much clearer demonstration that with the planned changes, rates will satisfy the applicable statutory regulatory criteria of 39 U.S.C. § 3633(a).

The Commission appreciates that the Postal Service data collection systems do not yet fully reflect the changes required by the PAEA, *e.g.*, to collect cost data by product and distinguish between competitive and market dominant products. Moreover, the Commission recognizes that this proceeding is the first under the recently adopted rules governing competitive rate changes. As experience is gained, these rules may have to be expanded to provide more guidance to the Postal Service. These factors have influenced the Commission deliberations in this proceeding.

II. PROCEDURAL HISTORY

On March 12, 2008, the Postal Service filed a notice of the Governors' Decision No. 08-3 establishing changes in rates of general applicability for competitive products.² In the Notice, the Postal Service announced its intention to adjust prices for all competitive products, as well as its intention to make certain related mail classification changes.³ *Id.* The Governors supported their March 4, 2008 Decision with two attachments. Attachment A sets forth the proposed price and classification changes. Attachment B provides an analysis of the competitive products' price and classification changes intended to demonstrate that the price adjustments and classification changes comply with the statutory requirements.

The Postal Service expects that the planned price changes will "result in an increase of contribution for each competitive product." *Id.* at 1. Competitive products affected by the changes in the domestic arena are (1) Express Mail with an average price increase of 3.1 percent; (2) Priority Mail with an average price increase of 4 percent; (3) Parcel Select with an average price increase of 5.7 percent; and (4) Parcel Return Service (PRS) with an average price increase of 2 percent. Products affected in the international arena are (1) Global Express Guaranteed with an average price increase of 5.2 percent; (2) Express Mail International with an average price increase of 6 percent; (3) Priority Mail International with an average price increase of 6.1 percent; (4) International Direct Sacks—M-Bags with an average price increase of 5.9 percent; (5) International Priority Airmail with an average increase of 12.5 percent in published prices; and (6) International Surface Airlift with an average increase of 21.3 percent in published prices. Prices also increased for International Ancillary Services, namely, International Certificates of Mailing; International Registered Mail; International Return

² On March 12, 2008, the Postal Service issued Errata to the Notice of the United States Postal Service of Governors' Decision No. 08-3 (Errata) making minor changes to the filing.

³ Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision No. 08-3), March 4, 2008, at 1 (Decision).

Receipt; International Restricted Delivery; Priority Mail International Insurance; and Global Express Guaranteed Insurance.

Initial Commission action. In Order No. 65, the Commission provided public notice of the Postal Service's planned competitive price changes. PRC Order No. 65, March 13, 2008. The Commission also established Docket No. CP2008-3 to consider the planned price adjustments and classification changes, appointed a Public Representative, and established a 14-day period for public comment, which ended March 27, 2008. *Id.*

Commission Information Request. The Commission issued an information request on March 19, 2008, seeking additional information as to whether PRS would cover its attributable cost in FY 2008 and an estimate of Parcel Select's contribution for FY 2008. Commission Information Request No. 1, March 19, 2008 (CIR No. 1). The Postal Service filed its response on March 26, 2008. Response of the United States Postal Service to Commission Information Request No. 1, March 26, 2008 (Response to CIR No. 1). In its response, the Postal Service asserts that there is no indication that PRS revenues in FY 2008 will not cover its attributable cost. *Id.* at 3. It also indicates that the estimated increase in contribution for Parcel Select is based on the 12-month period ending in May 2009.

Comments. The Commission received comments from Michael H. Rehmus, David B. Popkin, BargainBookStores.com, Elmwood Publishing, Marlene Slabaugh, Pitney Bowes, Inc., and the Public Representative.⁴ The Commission appreciates commenters' contributions.

⁴ Comments of Michael H. Rehmus, March 18, 2008 (Rehmus Comments); Comments of BargainBookStores.com (BBS Comments); Comments of Marlene Slabaugh (Slabaugh Comments); and Comments of Elmwood Publishing (Elmwood Comments), all filed March 21, 2008; Comments of Pitney Bowes Inc. in Response to Notice and Order Concerning Change in Rates of General Applicability for All Competitive Products (Pitney Bowes Comments); Initial Comments of David B. Popkin (Popkin Comments); and Public Representative Comments in Response to Notice of Change in Rates for Competitive Postal Products and Limited Classification Changes (Public Representative Comments), all filed March 27, 2008.

III. COMPLIANCE WITH STATUTORY PROVISIONS APPLICABLE TO RATE AND CLASSIFICATION CHANGES FOR COMPETITIVE PRODUCTS

The Postal Accountability and Enhancement Act, Public Law 109-435 (PAEA), as codified at 39 U.S.C. § 3633, sets forth the provisions governing the lawfulness of rates for competitive products. The Commission promulgated rule 3015.7 to determine compliance with section 3633. PRC Order No. 43, October 29, 2007. The following provisions apply:

1. Each competitive product must cover its attributable cost. 39 U.S.C. § 3633(a)(2); 39 C.F.R. § 3015.7(b).
2. Competitive products must collectively cover their appropriate share of the Postal Service's institutional costs, which the Commission has determined to be, at a minimum, 5.5 percent of the Postal Service's total institutional costs. 39 U.S.C. § 3633(a)(3); 39 C.F.R. § 3015.7(c).
3. Competitive products may not be cross-subsidized by market dominant products. The Commission will use incremental costs to test for such cross-subsidies. 39 U.S.C. § 3633(a)(1); 39 C.F.R. § 3015.7(a).

IV. DOMESTIC COMPETITIVE PRODUCTS

A. Express Mail

Express Mail, the Postal Service's fastest mail service, provides guaranteed delivery of letters, documents, and merchandise overnight to most addresses in the United States, including post office boxes and military addresses. Express Mail may be mailed from a post office or picked up on demand, and may be delivered to a specified address or sent to a designated post office for pick-up. Express Mail is available every day of the year; however, an extra charge applies for Sunday and holiday delivery. Express Mail must be mailed by a specified acceptance time to have guaranteed on-time delivery. The Postal Service will give customers a full refund if Express Mail is not delivered (or attempted to be delivered) by the guaranteed time. Express Mail includes, at no additional cost, insurance up to \$100 against loss or damage, proof of delivery, and tracking.

1. Price Adjustments

For Express Mail service, the Postal Service plans an average price increase of 3.1 percent, which it characterizes as needed to improve the profitability of the product while also positioning it for growth. Decision, Attachment B, at 1. In addition to increasing rates, the Postal Service also plans substantive classification changes to its Express Mail service. *Id.* at 1-2.

2. Classification Changes

The Postal Service plans changes to the pricing structure of Express Mail by adopting a zone pricing system with prices based on weight and delivery zones. *Id.* at 1. "The current schedule has prices for Custom Designed, Post Office-to-Post Office, and Post Office-to-Addressee, while the new schedule will only have one set of prices. Custom designed pricing will be offered through agreements with mailers. Post Office-

to-Post Office service will still be available, under the new name 'Hold for Pick Up,' and will use the zoned price schedule." *Id.*, n.1.

The Postal Service states that "[z]oning prices is expected to put Express Mail service in a much stronger competitive position." *Id.* The rate increases are the highest for zones 5-8 which correspond to mail that is transported more than 600 miles. *Id.* Rates for Express Mail shipped shorter distances may, under certain circumstances, decrease. *Id.* at 1-2. The Postal Service states that the zone system reflects the practice in the market place and "better align[s] prices with costs[,]" as costs increase when mail is transported over longer distances. *Id.* at 1; *see also* Decision, Attachment A, at 3-4. The Postal Service expects any decline in volume for long-distance shipments to be offset by higher volume in shipments for shorter distances. *Id.*, Attachment B, at 1.

Under the new system, the Postal Service will distinguish between retail customers, those who conduct business over the counter at a post office, and commercial customers, those who use online services or other alternate payment methods. Customers using an authorized online service, e.g., Click-N-Ship, or use their Express Mail corporate account, pay prices that are on average 3.0 percent lower than retail prices. *Id.* at 1-2. Additional discounts are available to customers using corporate accounts whose average mailing volumes exceed a minimum threshold. *Id.*; *see also Id.*, Attachment A, at 5. In addition to the 3.0 percent discount for using electronic payment options, commercial customers are eligible for further discounts (off the retail price) based on average daily volumes as follows: (1) 2.0 percent for an average daily volume over 2 pieces; (2) 4.5 percent for an average daily volume over 7 pieces; and (3) 7.0 percent for an average daily volume over 15 pieces.⁵ *Id.* The Postal Service indicates that "commercial volume incentives" will be paid quarterly and are estimated to cover a \$5 million reduction in revenue from current Express Mail customers. *Id.*, Attachment B, at 2. The Postal Service anticipates, however, that the discounts should

⁵ Average daily volume is based on a 12-month period minus weekends and holidays.

bolster Express Mail's competitive position with small- and medium-sized businesses, and therefore "compensate for and exceed any revenue loss from these incentives." *Id.*

The Express Mail Flat Rate Envelope will not be subject to zone pricing. *Id.* at 1; see also *Id.*, Attachment A, at 5. Currently, a Flat Rate Envelope sent to an addressee is priced at \$16.25. Under the new pricing system, the retail rate for a Flat Rate Envelope will increase by \$0.25 to \$16.50, while the commercial rate will decrease to \$16.00.

Currently, a Flat Rate Envelope is substantially less expensive, at \$13.85, if sent from a post office to another post office. The Postal Service plans to eliminate this separate rate category, and change the name of the service to Hold for Pick Up. Thus, the rate for Hold for Pick Up will be the same as Express Mail sent to an addressee. In addition, under the new zone pricing system, the Express Mail Flat Rate Envelope will not always be the least expensive mailing choice for a customer. A lightweight item sent only a short distance may, in certain instances, be purchased at a lower price using the zone rate option instead of the Flat Rate Envelope. *Id.*

3. Comments

Pitney Bowes commends the Postal Service on the planned pricing and classification changes for Express Mail. Pitney Bowes Comments at 1-4. Pitney Bowes states that the new zone pricing system better aligns Postal Service prices with costs as the zone pricing reflects market realities by recognizing the increased costs that are incurred when Express Mail must travel longer distances to reach its destination. *Id.* at 1-3. Predicting that it will expand retail alternatives and reduce costs, Pitney Bowes comments favorably on the alternate payment method discounts and the volume incentives that the Postal Service intends to offer to Express Mail customers. *Id.* at 3-4.

The Public Representative comments favorably that zone pricing, volume discounts, and discounts for customers using electronic payment "promote efficiency and reward customers who reduce costs." Public Representative Comments at 6. The Public Representative and David Popkin both recommend that actual service standards

and service performance data for Express Mail should be made publicly available. *Id.* at 7-8; Popkin Comments at 4. They both recommend, for example, more public disclosure of service standards to remote delivery locations in the interior of Alaska where Express Mail delivery only takes place twice a week by plane and where service may be further interrupted due to bad weather. Public Representative Comments at 9; Popkin Comments at 4. Popkin also urges that for local area delivery the Express Mail service could be improved by providing earlier delivery, 12 noon as opposed to 3 p.m. Popkin Comments at 4.

Popkin recognizes that under the new zone pricing system, the Flat Rate Envelope is not always the least expensive mailing choice for a customer and requests that the Postal Service educate the public so that mailers can make informed choices as to whether to use the Flat Rate Envelope or not. Popkin Comments at 1-2. In addition, both the Public Representative and Popkin recommend that the Hold for Pick Up service for Express Mail should be more generally publicized. Public Representative Comments at 9-11; Popkin Comments at 3-4. Popkin also advocates that the lower price provided for Express Mail sent from post office-to-post office (which is synonymous with the new term “Hold for Pick Up”) should be retained since delivery costs are avoided. *Id.* at 3.

4. Commission Analysis

The Postal Service expects that the planned price increases and accompanying classification changes will “[f]or the remainder of FY 2008 . . . generate \$35 million in revenue, resulting in increased contribution in Fiscal Year 2008.” Decision, Attachment B, at 2.⁶ Historically, the cost coverage of Express Mail has been fairly robust if somewhat fluctuating. In its Annual Compliance Determination,⁷ the Commission found

⁶ The Postal Service indicates that the \$35 million is net of the \$5 million reduction associated with incentives to existing customers.

⁷ Annual Compliance Determination U.S. Postal Service Performance Fiscal Year 2007, March 27, 2008 (ACD).

the cost coverage of Express Mail to be 156.3 percent. Based on the information currently before it in this proceeding, the Commission finds that the price increases for Express Mail appear to satisfy the statutory and regulatory requirements under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. It also appears that the accompanying planned classification changes comply with the statutory and regulatory criteria.

Comments raise a valid concern about the need for the Postal Service to make the public aware of Express Mail mailing options, *e.g.*, that the Flat Rate Envelope might not be the least cost option for shorter hauls. Accordingly, the Commission encourages the Postal Service to educate the public in this regard. Although issues regarding Express Mail service standards are outside the scope of this proceeding, customers purchasing Express Mail services should be made aware of the service standards.

B. Priority Mail

Anyailable matter may be sent as Priority Mail, and First-Class Mail that weighs more than 13 ounces must be mailed as Priority Mail. Priority Mail provides an expedited delivery option (on average two to three days) to customers.

1. Price Adjustments

The Postal Service introduces two Priority Mail rate schedules, one for retail customers, and the other for commercial customers. As with Express Mail, the Postal Service will distinguish between retail customers, those who conduct business over the counter at a post office, and commercial customers, those who use online services or other alternate payment methods. The Postal Service indicates that the overall price increase for Priority Mail is 4.0 percent. Decision at 1. Priority Mail retail prices increase on average by 6.0 percent. *Id.*, Attachment B, at 2. The higher increase in the retail price category is intended to improve contribution and allow discounts for electronic payment methods. The Postal Service expects that on average commercial customers will pay 3.5 percent less than retail customers, and will experience an

average increase of only 2.2 percent. The Postal Service predicts that the commercial discount options will increase mail “volume and revenue from small-volume commercial shippers who use software to select the carrier with the lowest price.” *Id.*, Attachment B, at 2.

The Flat Rate Envelope rates increase to \$4.80 for retail customers and \$4.75 for commercial customers. The regular Flat Rate Box rate increases to \$9.80 for retail customers and \$9.30 for commercial customers. Prices for the large-sized Priority Mail Flat Rate Box were established in Docket No. CP2008-1. They remain unchanged for retail customers, \$12.95, but are reduced for commercial customers to \$12.50. The military discount available for delivery to APO/FPO addresses retains the existing retail price, \$10.95, while reducing the commercial price to \$10.50. *Id.* The Postal Service expects the price changes to increase total contribution for FY 2008 by at least \$59 million. *Id.*

2. Comments

Pitney Bowes commends the Postal Service for adopting pricing incentives and predicts that they “will promote adoption of these cost effective and value-added payment evidencing channels” and encourage increased mail volume. Pitney Bowes Comments at 3-4. As with Express Mail, Popkin and the Public Representative recommend that actual service standards and service performance data for Priority Mail should be made publicly available. Public Representative Comments at 7-9; Popkin Comments at 4. Popkin recommends “that the Postal Service increase the Service Standards for Priority Mail when compared to First-Class Mail.” *Id.* He urges that the “overnight area for Priority Mail be expanded.” *Id.*

3. Commission Analysis

The Postal Service expects the planned price increases for Priority Mail to increase total contribution by \$59 million. Historically, the cost coverage of Priority Mail

has been fairly substantial. In the ACD, the Commission found the cost coverage of Priority Mail to be 128.9 percent. ACD at 24, Table IV-A-1. Based on the information currently before it in this proceeding, the Commission finds that the price increases for Priority Mail appear to satisfy the statutory and regulatory requirements under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. As previously addressed in the context of Express Mail, issues regarding Priority Mail service standards are outside the scope of this proceeding, but customers purchasing Priority Mail services should be made aware of the service standards.

C. Parcel Select

Section 3631 of title 39 lists “bulk parcel post” as one of several types of competitive mail matter. However, that term is not defined by the PAEA. In Order No. 26, the Commission agreed with the view of several parties that “bulk parcel post” should consist of Parcel Select, Parcel Return Service, and Parcel Post mail qualifying for dropship and barcode discounts. Order No. 26, ¶ 3012. The Commission subsequently accepted the Postal Service’s suggestion that discounted Parcel Post be consolidated with Parcel Select as one competitive product. *Id.*, ¶¶ 3059-60 and 4004.

1. Price Adjustments

The overall percentage change in prices for Parcel Select service is 5.7 percent. Decision at 2. Prices increase more for destination bulk mail center (DBMC) entry than for destination delivery unit (DDU) in an effort to encourage customers to bring packages to the DDU. In addition, declining block prices are proposed as an incentive for shippers to increase their volumes. Specifically, shippers who provide greater than \$5 million of Parcel Select revenues and who increase their annual volume from the previous 12-month period will be eligible for a “Loyalty Incentive” rebate of between 0.25 and 1.5 percent. As a further incentive to increase their annual volume, shippers who qualify for the Loyalty Incentive and achieve an annual growth rate of at least

10.0 percent will be eligible for additional “Growth Incentive” rebates of between 2.0 and 14.0 percent on incremental DDU volume based on their annual postal revenues. Further, the growth incentive rebates apply only to the incremental volume growth rather than the entire year’s volume.

2. Comments

No comments specifically addressing Parcel Select service were received in response to the Commission’s Order instituting this proceeding.

3. Coverage of Attributable Costs

The Governors’ Decision projects that the introduction of the incentives described above “should increase total contribution by \$16 million in Fiscal Year 2009.” Decision, Attachment B, at 4. In its response to Commission Information Request No. 1, the Postal Service explains that the period over which the projected \$16 million in increased contribution is expected is not entirely within FY 2009. Rather, the period that was referred to includes “the latter 4-½ months of FY 2008 and the first 7-½ months of FY 2009.” Response to CIR No. 1, question 2, n.2. In addition, the Postal Service states that this projected \$16 million increase is a judgmental assessment, reflecting management goals, and is not a projection developed from workpapers. *Id.*, question 2. Finally, the Postal Service states that the overall 5.7 percent price increase for Parcel Select service is projected to increase contribution by \$23 million. *Id.*

In the ACD, the Commission found that the revenue and cost data submitted by the Postal Service suggested that Parcel Select recovered attributable costs. ACD at 112. Information submitted in this proceeding appears to support the conclusion that following implementation of the proposed price increases, Parcel Select will continue to recover attributable costs.

There are, nevertheless, two further points that need to be addressed. First, the Postal Service needs to establish rebate accounts in which the amounts that are

actually rebated to shippers are maintained. Moreover, the rebate accounts should be kept in a manner which permits identification of the fiscal year to which the rebate relates. Thus, if a rebate is actually made in fiscal year No. 2, but is made for service provided in fiscal year No. 1, the rebate account should identify the rebate as related to fiscal year No. 1. The ability to identify the fiscal year to which the rebate relates is needed by the Commission in order to perform annual compliance determinations as required by 39 U.S.C. § 3653(b).

Second, the Commission expects that future discount or rebate mechanism proposals will be accompanied by a more complete explanation of how the discount or rebate is to be calculated and applied. For example, an explanation of a proposed discount to shippers who increase volume by 5.0 percent for a specific product should make clear whether the discount will be given for only that portion of the volume increase that exceeds the 5.0 percent threshold, or whether satisfaction of the 5.0 percent threshold makes the shipper eligible for a discount on the entire increase in volume. A more complete explanation of the manner in which the discount or rebate operates will benefit the mailing public and will reduce the need for the Commission to make follow-up information requests to facilitate a more efficient review of such proposals.

D. Parcel Return Service

Parcel Return Service enables recipients to return unwanted items to merchants using a prepaid label. The returned items are picked up by the merchant (or agent) at the return delivery unit (RDU) and return bulk mail center (RBMC).

1. Price Adjustments

The Postal Service states that the overall percentage increase in prices for PRS is 2.0 percent. Decision at 2. This overall change reflects an underlying realignment of prices between the RDU and RBMC categories. The RBMC prices increase

approximately 9.0 percent on average, while the RDU prices decrease by 21.0 percent on average. *Id.* The overall percentage increase results from the fact that 70.0 percent of the volume is in the RBMC category. The existing single RDU price of \$2.20 that applies regardless of the weight of the piece being returned will be replaced by weight-based RDU prices that reflect the additional cost for handling heavier items. *Id.*, Attachment B, at 4.

2. The 2007 Annual Compliance Report

In its ACD, the Commission found that “attributable costs [for Parcel Return Service] exceed revenues, yielding a cost coverage of approximately 98 percent.” ACD at 112. In emphasizing that rates for PRS must be set to recover attributable costs, the Commission noted the pendency of the instant proceeding in Docket No. CP2008-3 and the fact that it had issued a Commission Information Request regarding the sufficiency of the planned PRS rate changes. See CIR No. 1.

3. Comments

The comments of the Public Representative specifically question whether PRS rates will be sufficient to recover attributable costs based upon the information provided by the Postal Service in its ACR submission and its Notice in this docket. Public Representative Comments at 4-5.

4. Attributable Cost Coverage

The Governors state their expectation that the new rates will “encourage significant migration of RBMC volumes to RDU[;]...[that]...[i]f there are no new customers, these changes are expected to improve overall contribution from the product, even if gross revenue declines[;]...[but that]...[a]dding new users of PRS will produce a revenue increase.” Decision, Attachment B, at 4.

In responding to Commission Information Request No. 1, the Postal Service asserts its disagreement with the suggestion that the revenues from PRS service did not cover attributable costs in FY 2007. Response to CIR No. 1, question 1. At most, the Postal Service contends, “the available data are inconclusive.” *Id.* Finally, the Postal Service says that it sees “no indication” that PRS revenues in FY 2008, inclusive of the May 12, 2008 price change, will fail to cover attributable costs reported in the FY 2007 ACR. *Id.*

In support of its position, the Postal Service advances three arguments. First, it argues that because its data systems still need to be reconfigured, the product cost data for PRS service are inexact and that, consequently, certain average Parcel Post costs, which are not PRS-specific costs, are being attributed to PRS service, making it likely that costs being attributed to PRS service are overstated. As an example, the Postal Service asserts that “other”⁸ unit costs for PRS service are less than average because delivery and normal acceptance, key components of the “other” costs aggregate, are largely avoided by PRS service. Response to CIR No. 1, question 1. This explanation is inconsistent with Postal Service testimony in Docket No. MC2006-1 on PRS avoided costs that made no mention of avoided delivery costs, but did identify certain other costs, including storage, scanning, and postage due costs. See PRC Op. MC2006-1, March 3, 2006, at 7, Table 1. In short, the Postal Service’s claim that certain “other” costs for PRS service may be overstated, does not preclude the possibility that the use of average costs for all Parcel Post services may understate other categories of PRS-specific costs. No quantification of these potentially offsetting categories of costs is available.

The second argument offered by the Postal Service is that FY 2007 revenue does not reflect the full effect of the Docket No. R2006-1 price increase that went into effect on May 14, 2007, and that when the further planned increases in this proceeding

⁸ For these cost calculations, the Postal Service defines “other” unit costs as total attributable minus mail processing and transportation attributable costs. Docket No. ACR2007, USPS-FY07-9, File: pp_contribution.xls, Sheet: Summary.

are included, the overall revenue increase for PRS service (assuming no seasonality) will be approximately 4.48 percent for FY 2008. This, the Postal Service concludes, will show a revenue increase of \$32.7 million in FY 2008 that will fully cover the FY 2007 ACR cost figure even if the full “other” cost figure discussed above is attributable to PRS service. *Id.* This projection, if correct, might justify a conclusion that PRS attributable costs are covered.

Finally, the Postal Service asserts that the expected volume shifts between RDU and RBMC service will “change the calculus of the relationship between PRS revenues and costs in FY 2007.” *Id.* While this may be true, it is not clear whether the net result will be an increase or decrease in contribution, or whether the resulting revenues will, or will not, cover attributable costs.

PRS, like all other competitive products, must cover its attributable costs. 39 U.S.C. § 3633(a)(2); 39 C.F.R. § 3015.7(b). In light of the foregoing discussion, the Commission has reservations regarding the adequacy of the Postal Service’s attempt to show that projected revenues for PRS will cover the attributable costs in FY 2008. Nevertheless, in the absence of data that isolates the costs of PRS, the Commission can not conclude that the planned rates are unlawful. The Postal Service is, however, directed to immediately begin isolating the full set of costs for this product. The Postal Service’s Annual Compliance Report for FY 2008 must include sufficient, reliable new information so that the Commission can delineate PRC attributable costs, and accurately evaluate compliance with the standards established by the PAEA.

V. INTERNATIONAL MAIL COMPETITIVE PRODUCTS

The Postal Service plans to increase prices for five international competitive products and certain International Ancillary Services⁹ that are available with international competitive products as described below. It also proposes to make several classification changes to the five products.

A. International Expedited Services

The International Expedited Services product provides accelerated delivery of mailpieces from the United States to designated international destinations. It consists of two offerings: (1) Global Express Guaranteed (GXG), and (2) Express Mail International (EMI).

GXG offers a postage refund guarantee for day certain delivery from select post offices to select foreign destinations. Decision, Attachment A, at 2. The Governors' Decision indicates a planned price increase of 5.2 percent for GXG that is expected to result in a revenue increase of \$170,000. *Id.*, Attachment B, at 4. It retains the discounts for online preparation and payment or for use of an authorized PC postage vendor. Decision at 2.

EMI provides accelerated delivery that is not as fast as GXG and offers a more limited postage refund guarantee than GXG for day certain delivery. The Decision indicates a planned price increase of 6.0 percent on average for EMI. *Id.* The adjustment to EMI will produce a contribution increase of approximately \$3.8 million. *Id.*, Attachment B, at 5.

The Governors' Decision also announces new incentives for mailers of EMI. The Postal Service will provide commercial mailers of EMI price reductions of 8.0 percent for payment of postage by permit imprint and the use of authorized software to prepare

⁹ International Ancillary Services available with international competitive products include: (1) International Certificate of Mailing; (2) International Registered Mail; (3) International Return Receipt; (4) International Restricted Delivery; (5) Customs Clearance and Delivery Fee; and (6) International Insurance.

their mail. *Id.* For commercial mailers who use the authorized software and pay postage through an Express Mail corporate account, price reductions of 8, 10 or 12 percent will be available, depending on the customer's volume or postage commitment. *Id.* The Decision explains that existing customers are not expected to shift their volumes from the retail service to the commercial service because these incentives were previously available to customers under customized agreements. *Id.* Any decrease in revenue due to a shift in volume from the full retail price to the lower incentive prices will be covered by the overall price increase for EMI and the growth from new commercial customers taking advantage of the incentives. *Id.*

The Postal Service proposes that these new EMI incentives be added to the draft Mail Classification Schedule (MCS). *Id.*, Attachment A, at 7. Other mail classification changes include the elimination of Global Shipping Solutions as an Optional Feature, and the deletion of a country group (Price Group 10) from EMI to align its number of groups with those proposed for Priority Mail International, M-Bags, and First-Class Mail International. *Id.*

B. Priority Mail International

Priority Mail International (PMI) is the only international delivery option offered by the Postal Service for parcels. The product consists of three services: (1) PMI Flat Rate Envelope; (2) PMI Flat Rate Box; and (3) PMI Parcel. PMI Flat Rate Box and PMI Parcel services may not contain written correspondence. Current and personal written correspondence may be sent using the PMI Flat Rate Envelope.

The Decision indicates an increase on average of 6.1 percent to PMI, which is designed to increase contribution by \$6.7 million. *Id.*, Attachment B, at 6. It retains the 5.0 percent discount for mailers who use Click-N-Ship or other authorized online applications. *Id.* Additionally, the Decision announces that PMI commercial mailers will be eligible for a 5.0 percent discount for payment of postage by permit imprint and the use of authorized software to prepare their mail. *Id.* As with the new incentives for EMI,

the Postal Service does not expect any shift in volume or decrease in revenue because the incentive was previously offered under customized agreements. *Id.*

The Postal Service plans to add the permit imprint incentive to Outbound PMI Packages in the draft MCS. *Id.*, Attachment A, at 20. Other mail classification changes include removing the word “Packages” from the product title, amending the maximum size of circular parcels, and inserting a footnote expounding on the minimum size requirement for mailpieces. *Id.* at 19. As with EMI, Global Shipping Solutions would be eliminated as an Optional Feature, and the number of country groups would be modified to nine. *Id.* at 19-20.

C. International Direct Sacks—M-Bags

The International Direct Sacks product, also known as M-Bags, provides delivery of direct sacks containing printed matter to a single foreign addressee. The sacks may include articles of merchandise related to the enclosed printed matter. The Decision announces a 5.9 percent increase on average for M-Bags and expands the number of country groups to nine to match EMI, PMI, and First-Class Mail International. *Id.*, Attachment B, at 6. No estimate of increased revenues or contribution is provided.

D. International Priority Airmail

International Priority Airmail (IPA) transports bulk First-Class Mail International items by air to the foreign destination where the mailpieces are entered into that country’s postal system for priority delivery. It is faster than First-Class Single-Piece International and offers lower prices. To offset rising costs, the Postal Service plans a 12.5 percent increase in published prices for IPA, which the Postal Service indicates will result in increased contribution. *Id.* at 7. Incentives through customized agreements remain available.

The Postal Service modifies the title of IPA by changing the word “Airlift” to “Airmail.” *Id.*, Attachment A, at 40. In the draft MCS, the table called “Size and Weight

for Letters and Small Packages” is replaced by separate Size and Weight tables for each of the following: Letters, Large Envelopes (Flats), and Packages (Small Packets). *Id.* at 40-41.

E. International Surface Airlift

International Surface Airlift (ISAL) is available for the shipment of bulk First-Class Mail International items by air on a space available basis to the foreign destination where the mailpieces are entered into that country’s surface or non-priority mail system for delivery. The Governors’ Decision announces an increase of 21.3 percent in published prices for ISAL International Service Center Drop Shipment. *Id.*, Attachment B, at 7. According to the Postal Service, the increase will generate an increased contribution for FY 2008. *Id.* The average price increase for the ISAL Full Service option is not specified.

The Postal Service plans several mail classification changes, including the elimination of the ISAL Direct Shipment option. *Id.*, Attachment A, at 46-47. As with IPA, the “Size and Weight for Letters/Small Packets/Packages” table is removed from the draft MCS and separate tables for Letters, Large Envelopes (Flats), and Packages (Small Packets) are added. *Id.* at 45-46.

F. International Ancillary Services

The Governors’ Decision announces that the prices of the following International Ancillary Services available with outbound international competitive products will increase: International Certificate of Mailing; International Registered Mail; International Return Receipt; International Restricted Delivery; and International Insurance, specifically GXG and PMI Insurance. Decision at 3. Except for Insurance, the planned prices match those announced in Docket No. R2008-1 for international market dominant Special Services. *Id.*, Attachment A, at 51-54. For example, as under Docket No. R2008-1, International Registered Mail will increase from \$10.15 to \$10.80, and

International Return Receipt will increase from \$2.15 to \$2.20. The price adjustments for GXG Insurance and PMI Insurance are in shown Tables IV-1 and IV-2.

**Table IV-1
GXG Insurance Prices**

Indemnity Limit Not Over¹	Current Price² (\$)	Planned Price (\$)
\$100	0.00	0.00
Each additional \$100 or fraction thereof over \$100 up to a maximum of \$2,499 per shipment	0.75	1.00

¹ Maximum indemnity varies by country.

² International Postal Rates and Fees, Publication 51, May 14, 2007, at 1 (IPRF).

Source: Decision, Attachment A, at 55.

**Table IV-2
Priority Mail International Insurance Prices**

Indemnity Limit Not Over¹ (\$)	Current Price²— Canada (\$)	Planned Price— Canada (\$)	Current Price³— All Other Countries (\$)	Planned Price— All Other Countries (\$)
50	1.65	1.70	2.40	2.45
100	2.05	2.15	3.30	3.35
200	2.45	2.60	4.20	4.30
300	4.60	4.60	5.10	5.25
400	5.50	5.55	6.00	6.20
500	6.40	6.50	6.90	7.15
600	7.30	7.45	7.80	8.10
675	8.20	8.40	8.70	9.05
700	N/A	N/A	8.70	9.05
Each additional \$100 or fraction thereof over \$700	N/A	N/A	0.90	0.95

¹ Maximum indemnity varies by country.

² IPRF at 8.

³ *Id.*

Source: Decision, Attachment A, at 55.

G. Comments

Five commenters address the planned International Mail price adjustments: Michael H. Rehmus, Elmwood Publishing, BargainBookStores.com, Marlene Slabaugh, and the Public Representative.

Rehmus, Elmwood Publishing, BargainBookStores.com, and Slabaugh argue that the 12.5 percent increase in published IPA prices and the 21.3 percent increase in published ISAL prices are too high. Rehmus Comments at 1; Elmwood Comments at 1; BBS Comments at 1; and Slabaugh Comments at 1. They contend that the increased rates coupled with a May 12, 2008 implementation date will cause economic hardship and render their businesses non-competitive. *Id.* Rehmus and Elmwood Publishing encourage the Commission to reduce the rates and to consider the possibility of announcing rate increases 18 months in advance to enhance predictability for businesses. Rehmus Comments at 1; Elmwood Comments at 1. Slabaugh requests that the Commission simplify and keep the rates as low as possible. Slabaugh Comments at 1.

The Public Representative does not seek relief from the Commission at this time. He notes that the increases for International Mail are logical and fair considering that the U.S. dollar is weak in the world market. Public Representative Comments at 5-6.

H. Commission Analysis

Upon review of the record, the Commission finds that the planned increases for the international competitive products have not been shown to be unlawful. In the ACD, the Commission found that the outbound international competitive products generated sufficient revenues to cover their attributable costs and to contribute to institutional costs. ACD at 22-23. Based on the increased prices, the Commission has no basis to conclude that this will not continue. Nonetheless, regarding future competitive product price adjustments, the Commission anticipates that notices will provide more detail concerning each product.

Elmwood Publishing, BargainBookStores.com, and Slabaugh raise legitimate concerns regarding the planned increases in published rates for IPA and ISAL. Prior to passage of the PAEA, international rates were set unilaterally by the Postal Service. Although the PAEA fundamentally alters the manner in which international rates are established, the Postal Service retains substantial pricing flexibility. The planned increases in the published rates for ISAL and IPA have not been shown to violate the statute.

As to announcing increases 18 months in advance, the PAEA requires that the Postal Service provide notice of its intention to adjust competitive rates only 30 days prior to the intended implementation date. 39 U.S.C. § 3632(b)(2). A practice of announcing increases 18 months in advance would be extremely unusual in a competitive market.

In Docket No. ACR2007, the Postal Service indicated that it was unable to separate the billing determinants between market dominant and competitive products for the International Ancillary Services due to constraints with its existing data system. ACR at 12. Because the billing determinants could not be segregated, the prices set in Docket No. R2008-1 for the market dominant International Ancillary Services are applicable to the competitive International Ancillary Services as well. The Postal Service should immediately begin to review its data systems so that any distinction between the costs of competitive and market dominant services can be identified and quantified.

The Commission finds the classification modifications reasonable and will reflect the changes in the draft MCS.¹⁰ Finding the classification changes reasonable does not bind the Commission to the Postal Service's determinations on products and services. For example, the Postal Service lists Customized Pricing, referring to ICM agreements, as a price category available for EMI, PMI, M-Bags, IPA, and ISAL. Decision, Attachment A, at 7, 20, 42, 47, and 49. The Commission, however, views each ICM

¹⁰ As with previous Orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the MCS the Commission ultimately adopts.

agreement as a separate product as opposed to a price category of another product, such as EMI.

A full review of the record in this proceeding, including the Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision 08-3), filed March 12, 2008, has been completed. With regard to the price adjustments contained therein, for the reasons set forth above

It is Ordered:

1. The planned price adjustments for competitive products are not in conflict with the requirements set forth in 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.
2. Except to the extent granted or otherwise disposed of herein, all outstanding requests in Docket No. CP2008-3 hereby are denied.

By the Commission.

Steven W. Williams
Secretary