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

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2011-26

COMMENTS OF THE PUBLIC REPRESENTATIVE

(Issued November 19, 2010)

On November 2, 2010, the Postal Service filed a notice of proposed changes in rates of general applicability for competitive products and related mail classification changes.¹ The Postal Service filed its Notice pursuant to 39 U.S.C. 3632, 3633 and 3642 and CFR part 3015 and part 3020, subpart B. Included with the Notice is a Governors' Decision that establishes the changes, provides a statement of explanation and justification, and orders the changes into effect on January 2, 2011.² The Governors' Decision also intends to establish that the changes comport with section 3633(a) of title 39 and 39 CFR 3015.7(c).

On November 4, 2010, the Commission issued Order No. 575, designated the undersigned as Public Representative and established November 19, 2010 as the deadline for filing comments. In addition, pursuant to 39 CFR 3015.6, the Postal

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 10-4, November 2, 2010 (Filing).

² 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. 10-4, October 19, 2010.

Service was directed to submit additional information to assist in the completion of the record. The Commission requests sought inter alia explanation to support data filed in redacted and unredacted tables, explanation for methods used for forecasting data in tables used by the Postal Service and descriptions and further detail for products included in its filing. The Postal Service should insure that basic supporting documentation is filed with its initial filing that is comprehensive in nature including explanations for methodology in forecasts and providing detailed narratives for product descriptions.

Answers to the Commission request for supplemental information were to be provided by November 10, 2010.

The Postal Service provided responses to the Commission's request and supplemented its responses.³

I. PROPOSED RATE CHANGES

The Postal Service's current proposal seeks changes in prices or classification structure for 17 competitive products or services: Express Mail; Priority Mail; Parcel Select; Parcel Return; Domestic Extra Services including Premium Forwarding Service, Greeting Cards, Stationery, and Related Items, Shipping and Mailing Supplies, P.O. Box Services and Address Enhancement Services; Global Express Guaranteed; Express Mail International; Priority Mail International; International Money Transfer Service; International Priority Airmail; International Surface Air Lift; Airmail M-Bags; and International Ancillary Services. Notice at 2-4. The overall increase proposed ranges from 3.0 to nearly 300 percent.

³ See Notice of the United States Postal Service of Filing Supplemental Information Under Seal in Response to Commission Order No. 575, November 12, 2010. The response to the Commission's request in Order 575 for additional information was due November 10, 2010 but was filed on November 12, 2010. See *also*, Notice of the United States Postal Service of Filing Supplemental Information in Response to Commission Order No. 575, Question 2 and Notice of Filing Material Under Seal, November 16, 2010.

Additionally, the Postal Service proposes product description changes to be incorporated into a draft of the Mail Classification Schedule (MCS) for competitive products addressed in the notice. These description changes are proposed for: Express Mail Commercial Plus, Priority Mail, Global Express Guaranteed, Express Mail International, Priority Mail International, and International Ancillary Services and Post Office Box Service.

II. COMMENTS

The legal standards for competitive rate changes for this proceeding are established in 39 U.S.C.3633 as follows:

- There shall be no subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1);
- Each competitive product must cover its competitive costs (39 U.S.C. 3633 (a)(2));
- All competitive products must collectively cover a Commission – determined appropriate share of Postal Service Institutional costs (39 U.S.C. 3633(a)(3).

The statutory requirements for changes to the competitive product list are set forth in 39 U.S.C. 3642.

The Postal Service contends that its filings also comply with 39 CFR 3015.7(c) which implements 39 U.S.C. 3633. The Postal Service states that its notice and supporting documentation are in accordance with 39 CFR 3015.2.

The Postal Service's filings do contain the requisite Governors' Decision and explanation regarding the establishment of the rates, however, it still lacks necessary information for the Commission's review.

The Postal Service has filed responses to the Commission's request for additional information; however, it appears that more information is necessary to provide justification for specific increases as discussed below.

In the review of the products and services in the Postal Service's filings the analysis is twofold; an analysis of the request with requirements of 39 U.S.C.3633 and compliance with 3015.2 of the Commission's rules. In the view of the Public Representative an analysis of the products and services in the Postal Service's filings, reveals that there are issues not fully justified in the financial documentation in the instant filing as well as price increases that appear to be disproportionately applied and raise serious cause for concern. Certain price increases seem to be insensitive to customers in the current economy and may strike a fatal blow to the Postal Service's ability to be successful with a new competitive product and retain business in certain market areas.

The comments below address specific areas of concern or identify issues regarding products or services that should be addressed prior to the Commission's finding of whether the Postal Service has complied with applicable statutes and rules.

International Money Transfer Service

Governors' Decision No. 10-4 refers to paper money orders and based on the reference it would appear that it is including as a part of the International Ancillary Services product. Governors Decision No. 10-4 at 5. However, in the descriptive information included in the proposed MCS language attached to the Governors' Decision it has included international money order under International Money Transfer Service (IMTS). In the Postal Service's previous filings, it provided that international money orders are a part of the IMTS-Outbound service.⁴ The Postal Service's filing does not include data on International Money Transfer Service-Outbound and it is

⁴ See Docket No. MC 2009-19, Library Reference No. 391, January 13, 2010 at 26-27 and library reference PRC-MC2009-19-LR1 at 16-17.

therefore incomplete. The Postal Service needs to report the projected FY 2011 costs for IMTS-Outbound and include the contribution for IMTS-Outbound in its calculations to demonstrate compliance with 3633 (a)(2).

In the FY2009 ACD IMTS has been under water.⁵ The Postal Service separated IMTS into two products, IMTS Outbound and IMTS –Inbound in FY2010. Since that time the Postal Service has been unable to bifurcate the costs between IMTS-Inbound and IMTS-Outbound. The Postal Service should, at the very least, provide cost estimates for the two products separately. Since the Postal Service addressed this issue in Docket No. MC2009-19, it should now be able to produce cost estimates.

The classification of paper international money orders as an International Ancillary Service appears to be a mistake in the Postal Service's filing. Domestic money orders in comparison are grouped as a "stand alone" product on the market dominant product list. Based upon the requirements for an ancillary product,⁶ one does not need to purchase a mailpiece in order to purchase an international money order and therefore, the classification does not fit as an ancillary service. The reporting of this service as an ancillary service seems as though it is an attempt either to not report the cost data for this service or it is simply an oversight.

Competitive P. O. Box Service

This is a new competitive product. Order No. 473 transferred selected locations of Post Office Box (P. O. Box) Service locations from the market dominant product list to the competitive product list.⁷ The Postal Service's Request in Docket No. MC2010-20 was limited to select locations with alternative private mailbox services within one-half

⁵ See FY09 ACR at 78 and FY 08 ACR at 64.

⁶ Definition of an ancillary service has determined is referenced in FY07 Annual Compliance Determination (ACD) at 106; FY08 ACD at 77, FY 09 ACD at 102, and USPS Draft MCS Language, filed September 24, 2007 at 56.

⁷ See Docket No. MC2010-20, Order Approving Request to Transfer Selected Post Office Box Locations to the Competitive Product List, June 17, 2010.

mile. There was no change in price or service proposed in that proceeding. At that time the Commission received a number of comments that opposed the request from persons or interests representing Private Mailbox services. Essentially, the opposition was directed not at the transfer of the selected locations to the competitive product list but stemmed from the potential changes to the P. O. Box Service that may be offered in the future as a result of the change to the competitive product list. In this proceeding comments have again been received that are directed at the possible changes and enhancements to the P.O. Box Service product. The comments once again urge the Commission to reiterate its finding that any additional ancillary services for the P.O. Box Service must be filed before the Commission.

The Postal Service's filings in the instant case are somewhat confusing in the number of locations that are subject to its proposed price increase. The notice indicates that there are 49 locations. However, two postal locations have multiple ZIP Codes (Civic Center Van Nuys – 3 ZIP Codes and Belmont Shore - 2 ZIP Codes). Therefore, there are 49 Postal Office Box locations in the product, which comprise 52 ZIP Code locations.

In addition, these are the same 49 locations and 52 Zip Codes from Docket No. MC2010-20.

There is a wide range of prices for each box size based on location. For some locations, prices for box size one will increase by nearly 300 percent. See Table A below. In other locations prices for box size one will decrease by 20 percent. In some locations the Postal Service proposes a price increase and in other locations plans a price decrease.

Table A
Competitive PO Boxes
Minimum and Maximum Price Increases per Box Size

<u>Box Size</u>	<u>Current Price</u>	<u>Minimum</u>	<u>Percent Change</u>	<u>Maximum</u>	<u>Percent Change</u>
1	\$46.00	\$37.00	-19.6%	\$180.00	291.3%
2	\$70.00	\$55.00	-21.4%	\$270.00	285.7%
3	\$125.00	\$100.00	-20.0%	\$330.00	164.0%
4	\$255.00	\$205.00	-19.6%	\$400.00	56.9%
5	\$410.00	\$325.00	-20.7%	\$550.00	34.1%

Based upon the Postal Service's filing it is not clear how the Postal Service determined the rates. In Docket No. MC2010-20 the Postal Service stated that the impetus of the change in the selected locations was the existence and direct competition of Private Mail Box providers (PMBs). It was anticipated by some of the commenters to that proceeding that prices would be increased as a result of the locations in the selected Zip Codes, however no competitors filed comments in opposition to a price change. In the instant case, the Postal Service proposes a minimum and maximum charge for P.O. Box Service. All of the affected boxes are in Fee Group 1. Because the P.O. Boxes are all in Fee Group 1 it would be expected that there would be one fee rather than a wide range of proposed prices. Additionally, considering that the Postal Service has placed the locations in Fee Group 1 because of some similarities in the proximity to Private Mail Box providers it would appear the fees should be similar since the services are the same.

Address Enhancement Services

The Postal Service indicates that it does not have cost data for Address Enhancement Services and subsequently does not include provide a calculation for the services contribution to the Postal Service's institutional cost.

In Docket No. MC2009-19, the Postal Service presented underlying cost data for Address Enhancement Services. See Response to CHIR No.1, question 1(a). Since it appears some cost data is available the Commission should require the Postal Service to report projected costs for FY2011 and include Address Enhancement Service in its calculation of the contribution of competitive products to institutional cost.

Greeting Cards, Stationery, and Related Items; Shipping and Mailing Supplies; and International Ancillary Services

Because the Postal Service's supporting financial data does not provide the weighted average price increase for Greeting Cards, Shipping and Mailing Supplies or International Ancillary Services, there is cause for concern.

The Postal Service should be required to file FY 2009 volume and revenue data for Greeting Cards and Shipping and Mailing Supplies before the price increase is approved. If the volumes are unavailable, the Postal Service should have indicated that in its filing.

In addition, the Postal Service should file projected FY 2011 cost data for the January price increase proposal. In reviewing the non-public data filed in this proceeding Greeting Cards and Shipping and Mailing Supplies the worksheet filed for January projections for 2011 was compared with the worksheet filed for October projections for 2011. The two products are included in the Postal Service's October worksheet but not in the January worksheet. This should be corrected or an explanation should be given on why the Postal Service did not include the products.

Further, in reviewing the International Ancillary Services product which contains six services,⁸ the Postal Service only proposes an increase in prices for one service, International Insurance. However, the Postal Service does not report an average price increase figure for the International Ancillary Services. This is a unique situation since at this time; the Postal Service does not intend to increase prices for the remaining services. Typically, the Postal Service increases prices for the competitive International Ancillary Services at a similar or comparable level as the market dominant International Ancillary Services. Since the market dominant prices have not increased, the Postal Service did not include the five additional services in its request.

III. RECOMMENDATIONS

For some products, the Postal Service fails to provide estimated costs and/or average weighted price increases. This is somewhat a unique situation and stems from the fact that the Postal Service added (as mandated by the PAEA and the Commission) five competitive Special Services to the market dominant product list.⁹ Since the products are new to the product list, they may not have been included in the Postal Services cost models and RPW models. Thus, I am sensitive to the fact that the data may not exist for this case at this time for these products. If this is true the Postal Service should clearly state in its filing that for certain products, it does not have adequate data to provide estimate costs and/or average weighted price increases. This will alleviate an abundance of unnecessary questions and assumptions about why the information was not included in the filing. The Commission should require the Postal Service to file the necessary data before the approving the prices. Perhaps the Commission should relax its regulatory price change rules for AES, Greeting Cards, and

⁸ The following services comprise the International Ancillary Services product: 1) International Certificate of Mailing, 2) International Registered Mail, 3) International Return Receipt, 4) International Restricted Delivery, 5) International Insurance, and 6) Custom Clearance and Delivery Fee.

⁹ The five products are Address Enhancement Service, Greeting Cards, Shipping and Mailing Supplies, IMTS-Outbound, and IMTS-Inbound.

SMS until sufficient volumes are generated and cost methodologies are established but, require the Postal Service to 1) provide a status of developing costs for the products and 2) update its models by the time it seeks another competitive price increase and provide a status of its efforts to update its models. This will ensure that situations like this one do not occur again.

The presentation and discussion of the products in the Governor's Decision was not clear. It did not directly identify how many products were involved in the proposal. Some of the groupings were incorrect. Thus, the Postal Service should include a table of price changes or some method to convey the appropriate number of products involved in the docket. Attachment A provides a clear example of how the Postal Service can better present its average price increase figures.

IV. CONCLUSION

The Commission should require the Postal Service to clarify the issues discussed in these comments. The Postal Service has not complied with Commission rules for providing supporting data and explanation in its justification when it does not provide cost estimates and projected volume for the January price increases.

In consideration of the proposed increases in the new competitive product P.O. Box Service it appears to be inconsistent for the Postal Service to increase prices exponentially in the Fee Group 1 without further explanation as to the rationale for such a sharp increase in costs when all customers receive the same service. In the price increase for this product, the Postal Service has not provided adequate justification for the increases proposed.

Table B
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Competitive Price Increase

<u>Competitive Products</u>	<u>Average Rate Increase</u>
Domestic Competitive Products	
1 Express Mail	4.56%
2 Priority Mail	3.50%
3 Parcel Select	4.40%
4 Parcel Return	3.06%
Domestic Competitive Special Services	
5 Address Enhancement Service	5.38%
6 Premium Forwarding Service	5.04%
7 PO Boxes	-20.13% to 257.98%
8 Shipping and Mailing Supplies	NP*
9 Greeting Cards, Stationery, and Related Items	NP*
International Competitive Products	
10 Global Express Guaranteed	3.68%
11 Express Mail International	3.14%
12 Priority Mail International	3.80%
13 International Priority Airmail	3.26%
14 International Surface Air Lift	5.71%
15 Airmail M-Bags	5.77%
International Competitive Special Services	
16 International Ancillary Services	NP*
17 International Money Transfer Service	NP*

Notes

- * Not Provided: Volume data was not available to calculate the weighted average price increase

Respectfully Submitted

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