

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

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Dan G. Blair;
Tony L. Hammond; and
Nanci E. Langley

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2011-60

ORDER APPROVING
CHANGES IN RATES OF GENERAL APPLICABILITY
FOR A COMPETITIVE PRODUCT

(Issued March 16, 2011)

I. INTRODUCTION

The Postal Service proposes to add a price category, called Regional Ground service, to the Parcel Select product. The changes are scheduled to become effective April 17, 2011. For the reasons discussed below, the Commission approves the planned rate changes and will reflect the classification changes in the draft Mail Classification Schedule (MCS).

II. BACKGROUND

A. The Postal Service's Filing

On February 17, 2011, the Postal Service filed notice with the Commission concerning changes in rates of general applicability for Parcel Select.¹ In Order No. 679, the Commission gave notice of the docket, appointed a Public Representative, and provided the public with an opportunity to comment.²

The Notice includes related mail classification changes. The Postal Service represents that, as required by 39 CFR 3015.2(b), the Notice includes an explanation and justification for the changes, the effective date, and a schedule of the changed rates.

Attached to the Notice is Governors' Decision No. 11-2. The Governors indicate that they have evaluated the new price and classification changes in accordance with 39 U.S.C. 3632-33 and 39 CFR 3015.2. An analysis of Regional Ground service is attached to the Governors' Decision. Proposed MCS language is also attached to the Governors' Decision.

Parcel Select Regional Ground service. The Postal Service states that Regional Ground service will fill a gap in its current suite of shipping services in the category of the higher-volume business-to-consumer (B2C) segment, specifically package delivery of pieces within the first three postal zones (300 miles) from the origin. Regional Ground service is designed for commercial customers and requires a commitment of 10,000 pieces annually. Pieces may weigh up to 5 pounds, be up to 0.35 cubic feet in size, and must be machinable and barcoded. The Postal Service indicates that the risk of potential cannibalization of existing volume is low because the B2C market share on end-to-end pieces traveling within zones 1 to 3 is minimal.

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for a Competitive Product Established in Governors' Decision No. 11-2, February 17, 2011 (Notice).

² Notice and Order Concerning the Establishment of a Regional Ground Price Category Within Parcel Select, February 23, 2011 (Order No. 679).

Parcel Select Regional Ground service will have an origin sectional center facility (OSCF) offering. Pieces entered at an OSCF weighing 2 to 5 pounds and shipped within zones 1 to 3 will cost up to \$5.43 to ship. A lower priced offering will be available for shipping pieces entered at an origin network distribution center (ONDC). Pieces entered at an ONDC weighing up to 2 to 5 pounds and shipped within zones 1 to 3 will cost up to \$5.18 to ship.

B. Chairman's Information Request

In Chairman's Information Request No. 1, the Commission requested an analysis demonstrating that Parcel Select will remain in compliance with 39 U.S.C. 3633(a)(2) with the addition of the new, lower price rate category, Regional Ground.³ The Postal Service indicates that the cost coverage for all but one rate cell is expected to be at least as great as that for Parcel Select as a whole in FY 2010.⁴ The Postal Service asserts that the addition of Regional Ground will add to the total Parcel Select contribution. *Id.*

III. COMMENTS

Comments were filed by the Public Representative.⁵ No other comments were submitted. The Public Representative supports the Postal Service's decision to create a new rate category within the Parcel Select product. *Id.* at 4. He notes that the new Regional Ground service allows the Postal Service to compete in the short haul business market segment and expand volume through selective rate changes without affecting the remaining Parcel Select rate structure. *Id.* The Public Representative

³ Chairman's Information Request No. 1, March 2, 2011 (CHIR No.1).

⁴ Response of the United States Postal Service to Chairman's Information Request No. 1 and Notice of Filing Materials Under Seal, March 8, 2011 (Response to CHIR No. 1).

⁵ Public Representative Comments in Response to United States Postal Service Notice Concerning Establishment of a Regional Ground Price Category Within Parcel Select, March 3, 2011 (PR Comments). The Public Representative filed an accompanying Motion for Acceptance of Late-Filed Comments, March 3, 2011. The motion is granted.

adds that with the exception of one case, all percent price reductions are greater than 20 percent that could affect contribution levels for Parcel Select. *Id.* He also states that cannibalization of existing Parcel Select volume may result from this new price category, and that this cannibalization may result in decreased contribution. *Id.* While the Public Representative suggests that the Postal Service's contribution from Parcel Select as a whole will be lower, he does not make a finding as to whether Parcel Select will continue to meet the cost coverage requirements of section 3633(a)(2). *Id.* at 7.

IV. COMMISSION ANALYSIS

The Public Representative notes that cannibalization of existing Parcel Select volume may result from this new price category. *Id.* at 4. The Postal Service asserts that there is very little volume available to be directly cannibalized. The Postal Service adds that since the cost coverage for Regional Ground generally exceeds that of Parcel Select as a whole, indirect migration of other products such as DDU-entry will generally add to the total Parcel Select contribution. Response to CHIR No. 1 at 3.

The Commission has reviewed the Notice, the supplemental information provided by the Postal Service and the filed comments. The proposed prices for Regional Ground service are reviewed pursuant to 39 U.S.C. 3633(a) and Commission regulations under 39 CFR part 3015. In brief, these statutory and regulatory provisions require each competitive product to cover its attributable costs (39 U.S.C. 3622(a)(2)), prohibit the subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1)), and require that competitive products collectively make an appropriate contribution to the recovery of the Postal Service's total institutional costs. See 39 U.S.C. 3633(a)(3).

Based on the information provided in response to CHIR No.1, which includes an analysis of the potential cannibalization of current Parcel Select volume, the Commission finds that the addition of the Regional Ground rate category does not appear to prohibit the Parcel Select product from complying with section 3633(a)(2) or

competitive products as a whole from complying with sections 3633(a)(1) and 3633(a)(3). The related classification changes will be reflected in the draft MCS.⁶

It is ordered:

The Postal Service's planned price adjustments for Parcel Select appear to comply with 39 U.S.C. 3633(a) and 39 CFR 3015.7.

By the Commission.

Shoshana M. Grove
Secretary

⁶ As indicated in previous orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the MCS that the Commission ultimately adopts.