

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

Competitive Product Prices
Priority Mail Express & Priority Mail
Priority Mail Express & Priority Mail Contract 82

Docket No. MC2019-69

Competitive Product Prices
Priority Mail Express & Priority Mail Contract 82
(MC2019-69)
Negotiated Service Agreement

Docket No. CP2019-74

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE
REQUEST TO ADD PRIORITY MAIL EXPRESS & PRIORITY MAIL
CONTRACT 82 TO THE COMPETITIVE PRODUCT LIST

(January 7, 2019)

The Public Representative hereby provides comments in Docket No. MC2019-69/CP2019-74, which was established to consider the Postal Service's request to add a Priority Mail Express & Priority Mail contract to the competitive product list. The Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add Priority Mail Express & Priority Mail Contract 82 to the competitive product list.¹

The Postal Service's Request includes a Statement of Supporting Justification (Statement), a certification of compliance with 39 USC 3633(a), and proposed changes to the Mail Classification Schedule (MCS) competitive product list with the additions underlined. In addition, the Request includes a public (redacted) version of Governor's Decision No. 18-2 and related analysis, and Priority Mail Express & Priority Mail shipping services Contract 82. The Postal Service also filed under seal the full

¹ USPS Request to Add Priority Mail Express & Priority Mail Contract 82 to the Competitive Product List and Notice of Filing Materials Under Seal, December 27, 2018 (Request).

(unredacted) text of Contract 82, Governor's Decision No. 18-2, and a supporting financial model estimating the contract value during the first year.

The Postal Service states that Priority Mail Express & Priority Mail Contract 82 is a competitive product "not of general applicability" within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. The Postal Service also maintains that the prices and proposed classification for Contract 82 are authorized by Governors' Decision No. 18-2.² The Postal Service further asserts that the Statement provides support for adding Contract 82 to the competitive product list and the compliance of the Contract 82 with 39 U.S.C. § 3633(a). Request at 2; *Id.*, Attachment D.

The effective date of Contract 82 is two business day following the day on which the Commission issues all necessary regulatory approvals. *Id.*, Attachment B at 4 (Article II). Contract 82 is scheduled to expire 3 years from the effective date unless either party terminates the contract on 30 days' prior written notification, or other specific events. *Id.* at 4, (Article III).

COMMENTS

The Public Representative has reviewed the Postal Service's Request, Priority Mail Express & Priority Mail Contract 82, the Statement of Supporting Justification, and financial model filed under seal with the Request. Based upon that review, the Public Representative concludes that Contract 82 should be classified as a competitive product and added to the competitive product list. In addition, Contract 82 is projected to generate sufficient revenues to cover costs in its first year and thereby satisfy 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Contract 82 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission to consider whether "the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above

² Decision of the Governors of the United States Postal Service on Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, October 25, 2018 (Governors' Decision No. 18-2).

costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such powers are categorized as market dominant while all others are categorized as competitive.

The Postal Service Statement makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D, at 2. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add Priority Mail Express & Priority Mail Contract 82 to the competitive product is appropriate.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service. Based upon a review of the financial model, it appears the Postal Service’s negotiated prices for Contract 82 should generate sufficient revenues to cover costs during its first year and therefore satisfy the requirements of 39 U.S.C. § 3633(a).

As indicated above, Contract 82 is expected to remain in effect for a period of three years. The Postal Service does not indicate whether or not Contract 82 will cover costs in its second or third years, but that concern is largely mitigated because Contract 82 includes a mechanism for the adjustment of contract prices during the second and third years. Further concern is mitigated by the fact that the Postal Service must file revenue and cost data for Contract 82 in its Annual Compliance Report. This data will permit the Commission to review the financial performance of Contract 82 in its 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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